

Providing Vision and Leadership for the Future of the HVAC and Sheet Metal Industry

CONTINUITY AND TRANSITION PLANNING FOR HVAC AND SHEET METAL CONTRACTORS

THE CHANGING FACE OF LEADERSHIP FOR HVAC/SHEET METAL CONTRACTORS AND FABRICATORS

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2011 Prepared By:

FMI

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PHONE: (703) 222-9001 • FACSIMILE: (703) 349-5249 • www.newhorizonsfoundation.org

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1 EXECUTIVE SUMMARY

Working with the leadership and members of the New Horizons Foundation, FMI has produced three comprehensive research reports concerning the importance of business continuity planning and execution, a subject of growing importance to HVAC/sheet metal contractors. The three previous reports summarized in this document include:

- Exit Strategies for HVAC/Sheet Metal Contractors: Strategies for Equity and Ownership Transfer
- Mentoring and Coaching Practices: Developing the Next Generation
- Leadership Selection Practices for HVAC and Sheet Metal Contractors and Fabricators

In the three previous reports, we presented detailed information on the different exit strategies available to owners of HVAC/sheet metal construction and fabrication firms, mentoring and coaching practices, and selecting leaders. In this report, we demonstrate how the practices and strategies in all three reports work together to provide a strategy for business continuity. To help demonstrate how the three topics work together to form a comprehensive plan, we introduce the FMI Business Continuity and Transition Planning Model. The model is useful for visualizing the "big picture" problem of business continuity, and it is even more important for implementing plans to bring about the desired results of business continuity and growth, as well as preserving owner/investor capital.

To help think about the challenges of planning and implementing business continuity strategies, we present three fictitious scenarios representing owners with different timelines and goals. We created the scenarios based on our research of HVAC/sheet metal contractors and fabrication firms; however, the situations in the scenarios are composites. Each real-life situation is unique because each owner is unique. The scenarios present owners with different timelines before retirement or selling shares in their respective companies. The scenarios also have different strategic challenges. One includes passing ownership to the next generation, while another deals with finding and preparing nonfamily members to be the next owners. We hope the scenarios will help make the problems and challenges of business transition more immediate, especially for readers who are in the midst of a transition or just thinking of making their own transition plans.

In the latter half of this report, we use the scenarios to introduce the highlights from our previous surveys, and to present the steps for leadership selection and mentoring and coaching practices needed to create and implement a working plan. While we quote and use information from the previous reports in this report, we assume that the reader will refer to the previous reports for more detail on these practices.

2 INTRODUCTION: PERPETUATING THE BUSINESS, AN INDUSTRY PROBLEM

In conjunction with the New Horizons Foundation, FMI has produced three research reports concerning the need for transition planning and potential talent and leadership shortage as current leaders approach retirement age, and the HVAC/sheet metal companies they lead seek to replace them and continue to grow. The first survey in a series of three, "Exit Strategies for HVAC/Sheet Metal Contractors: Strategies for Equity and Ownership Transfer," was commissioned because of a recognition that baby boom-aged owners are fast-approaching retirement age, and many have not begun planning for the transfer of ownership of the companies they now lead. Our research confirmed the concerns of the New Horizons Foundation's leadership:

> *Three-quarters (76%) of respondents older than 50 plan to sell all of their stock in their company within the next 10 years, while only about half (48%) of the owners older than 50 are currently working on ownership transfer plans. Therefore, in the next 10 years, there will be a tremendous change in ownership of sheet metal, HVAC, and mechanical contractors.*

In the Exit Strategies report, we describe the three primary exit strategies available to owners of HVAC/sheet metal companies: liquidation, third-party sale, and sale/transfer to employees and family. Barring the choice of liquidation, the study details several approaches to make a smooth transfer of ownership, preserve the value of the company for the owners, and assure the ongoing organization is poised for continued success.

It is hoped that, even those who expect they will not be running the day-to-day affairs of their company within 5 years but are not planning their exit strategy, as well as those who have 10 to 20 years before they need to think about ownership transfer, will benefit from the information in this compilation report on our study of exit strategies, leadership selection, and preparation, mentoring and coaching.

Why do exit strategies seem so complex and take so long to implement? First, that question presumes an exit strategy exists, not just a vague expectation that ownership will be transferred to the children, other family members, or key employees when it is time to step down. A good strategy offers a carefully considered choice among several available options. When considering different strategies, it quickly becomes apparent that the most successful strategies depend not only on building a profitable business but also on having the right people in place to implement the strategy. These issues are of concern to all companies in the industry, regardless of size or current success of the organization.

3 PREPARING THE NEXT GENERATION TO TAKE ON OWNERSHIP AND LEADERSHIP

Liquidation is usually a sign that no exit strategy exists; the company is either in bankruptcy or might just lack a sound implementable business strategy. If the transition plan includes selling shares to family members or employees, it is not only necessary to work out the financial details but also to ensure that those purchasing the shares understand the business or have leadership in place to run the business as well or better than the current owners did.

While many HVAC and sheet metal contractors and fabricators may have employees who are capable and successful in their current positions, few companies have instituted formal plans

Why do exit strategies seem so complex and take so long to implement? First, that question presumes an exit strategy exists, not just a vague expectation that ownership will be transferred to the children, other family members or key employees when it is time to step down.

to develop selected leaders for the next level of leadership. The study entitled "Mentoring and Coaching Practices: Developing the Next Generation" details the benefits and use of creating ongoing mentoring and coaching programs to foster leadership growth.

The recession notwithstanding, most forecasters predict it will be increasingly difficult to attract and retain top talent for the construction industry in the next decade. Coaching and mentoring are proven processes for preparing next-generation leaders and improving the skills and competencies of current leaders. For internal searches and promotions, this will include employees who may become the next owners. Even for those not planning an exit strategy in the near future, creating depth of leadership and investing in the capabilities of employees not only helps retain and attract top talent, it also improves the bottom line to have the best people managing the increasing complexity of projects.

In the most recent study conducted for the New Horizons Foundation, "Leadership Selection Practices for HVAC and Sheet Metal Contractors and Fabricators," we reviewed current hiring practices of HVAC and sheet metal contractors and fabricators, focusing on hiring leaders at the supervisory and executive levels. In our coaching and mentoring study, we noted that coaching and mentoring is not for everyone in the company; for instance, coaching should not be used to "fix" the behavior of a problem employee. These practices are for selected individuals who express the drive and desire to succeed and move to the next level in their careers within the company. Working backward through the chronological order of the studies condensed in this report, we can say we started with the end in mind. That is, we looked at the details and challenges of various exit options for owners and found that success depended on having good leadership in the next generation of owners.

In time, the ownership of all companies must change hands unless the current owners plan to liquidate their assets and go out of business. The importance of having an exit strategy for owners has become of more immediate concern right now, because the large majority of owners of HVAC and sheet metal contractors and fabricators are approaching retirement age. Furthermore, the construction industry will be competing for new leaders and owners, along with many other industries. In any case, the most successful exit strategies are likely the result of the most successful business strategies. The most sustainable HVAC and sheet metal contractors and fabricators will have the best people, the best leaders, a strong company culture, and the ability to produce quality work and build relationships with customers. All successful exit strategies, whether fully executed in the next 5 years or 30 years from now,

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depend on building value for the current owners as well as the next generation of owners.

When we consider exit strategies, most of the concern is whether to sell to someone outside the company or complete an internal sale of assets or employee stock ownership plan (ESOP). Whichever method is considered, the plan begins by following best practices to create a deliberate, systematic process for recruiting and hiring the best people, with an eye toward building the next generation of leaders to become the future owners of the company.

The study "Leadership Selection Practices for HVAC and Sheet Metal Contractors and Fabricators" provides a methodology for improving hiring practices. "Our employees are our most important assets," is a construction industry truism. What makes that statement important and real is the action taken by the company to *develop its employees* into its most important assets. The legal concept of a business or corporation is that it is a growing, living entity. When construction businesses are founded by the proverbial "two men and a truck," the owners rarely have the concept of corporate longevity in mind. They are just looking to make a better living by working hard for themselves and their families. When all goes well, the business grows to provide a good living for the founder(s) as well as for their extended families and maybe hundreds or thousands of other families. Two men and a truck might grow to become a multi-generational company and an important contributor to the community.

In a recent industry survey, FMI asked general and specialty contractors to define and describe what they think it takes to be successful in the construction industry. The results of that survey uncovered multiple types of successful contractors and multiple ways to achieve success. Generally, those executives who were the most successful, or who felt their companies were most successful, were those who put people first. For instance, consider the list of success factors from one mechanical contractor answering the survey:

> My objectives when I left a promising career and joined this family business were:
>
> - To build a company that would live on from generation to generation
> - To work with people who I both liked and respected and to provide the same environment for them
> - To manage the company as if it was a public company (e.g., transparency in our actions)
> - To level out the peaks and valleys of the business cycle to avoid churning personnel
> - To attract and hold managers who would otherwise be our competitors
> - To leave the company in strong financial and management condition at the end of my career
> - For the company to be known and respected for its excellence and a source of pride for its employees
> - To instill an ownership culture in our management team, while providing a good living for all of our employees.
>
> – *President, Mechanical Contractor, $200 Million (from FMI "Profiles in Success: How Contractors Define and Achieve Success," 2008*)

This owner is deliberate in his plans to build a legacy and a successful business that will last for generations. Key to that plan are finding and developing good people and practicing sound business management and financial practices. This is a long-term plan as well as a plan for every day and every decision. In the following

summary of the three reports conducted for the New Horizons Foundation, we look at the highlights of what we learned in each report and how owners can develop processes and cultures that lead to sustainable success and sound planning for ownership transfer and management succession.

4 THE FMI BUSINESS CONTINUITY AND TRANSITION PLANNING MODEL

The FMI Business Continuity and Transition Planning Model



In the **FMI Business Continuity and Transition Planning Model**, one can imagine the owners in the example of the new company, begun as two men and a truck, are starting at the very beginning of the "current owner" sector in the circle. The model is circular to represent the theoretical perpetuity of a corporation, at least in the legal sense. That is, if successful, the corporation will survive the original owner(s) and becomes something of an entity itself. That is why owners, in time, may come to think of their company as their legacy. However, the original owners rarely see the larger picture of the whole model–they typically focus on just moving along the arrow—keeping the company going and making money. At some point, however, they begin to be more aware of the other elements in the picture. They realize that, in order to grow the business, they must hire employees who have leadership qualities. They may need training for current and future leaders, or mentoring and coaching to help valuable employees attain their potential. Having highly capable personnel is at the core of business success and continuity.

The area in the outer circle represents the basic exit strategy options. These options are available at any point in the business continuity cycle, although all will take some planning and time to execute successfully. The one option that ends the cycle is liquidation. Ideally, the size of the business, or vector in our model, will grow as it makes the cycle from original ownership to new ownership. The sale to employees or family represents the business transfer method most preferred or expected by owners of construction companies; however, current owners may opt to sell to a third party. In each of these exit strategy options, there are strategies and choices to be made that depend on the situation of the company as well as the needs and desires of the current owner(s). These various options are described in detail in our report to the New Horizons Foundation, "Exit Strategies for HVAC/Sheet Metal Contractors: Strategies for Equity and Ownership Transfer." Each will be discussed in this report as we look at different scenarios for ownership transfer and business continuity.

Consider that over the next 10 years, approximately 59% of all current HVAC/sheet metal construction firms will be under new ownership and in some cases, out of business and liquidated. Then consider that only 48% of survey respondents said they are currently working on an internal ownership transfer plan, and 22% expect to sell to a third party.

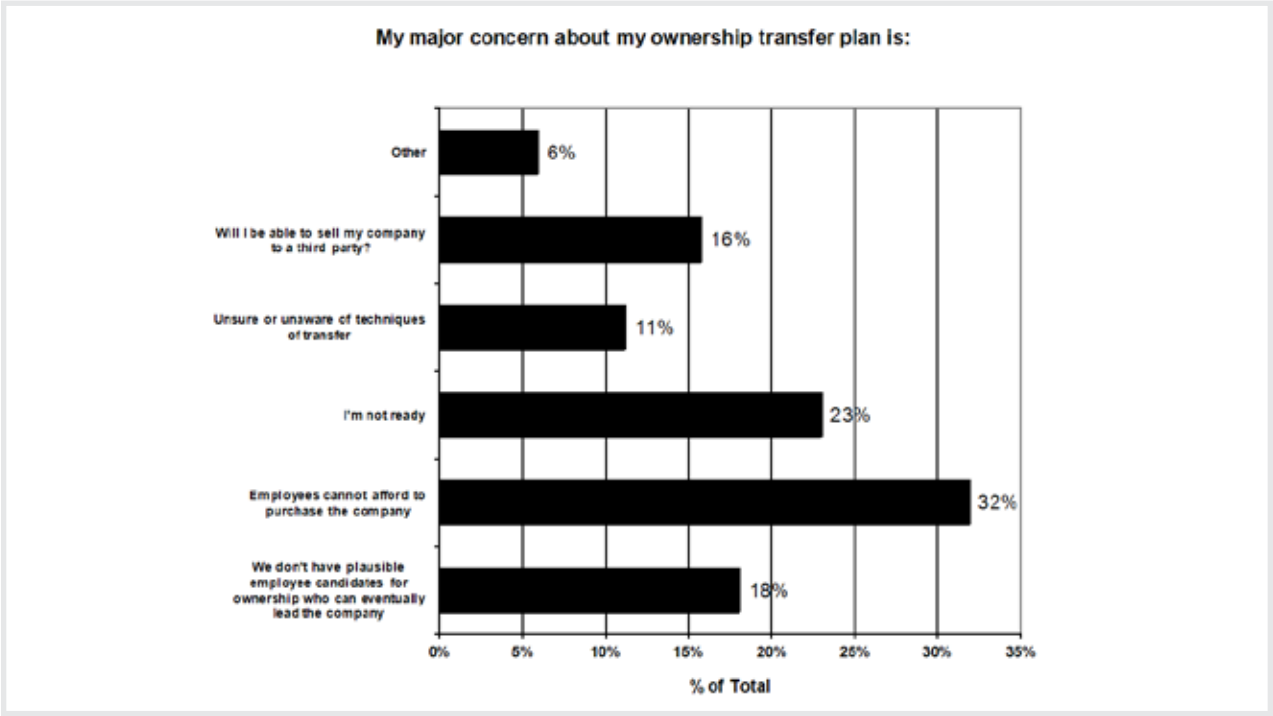
5 MOVING FROM THE MODEL TO REAL WORLD APPLICATION

The benefit of a model that provides a graphical overview of business continuity and ownership transition is that it makes it easy to see the inevitable decisions owners must make regarding the strategies for long-term business ownership. This may be especially useful for those owners actively engaged in the day-to-day management and leadership of the company. Most are aware, at least in the back of their minds, that something like this model exists and that something has to be done about it. Someday.

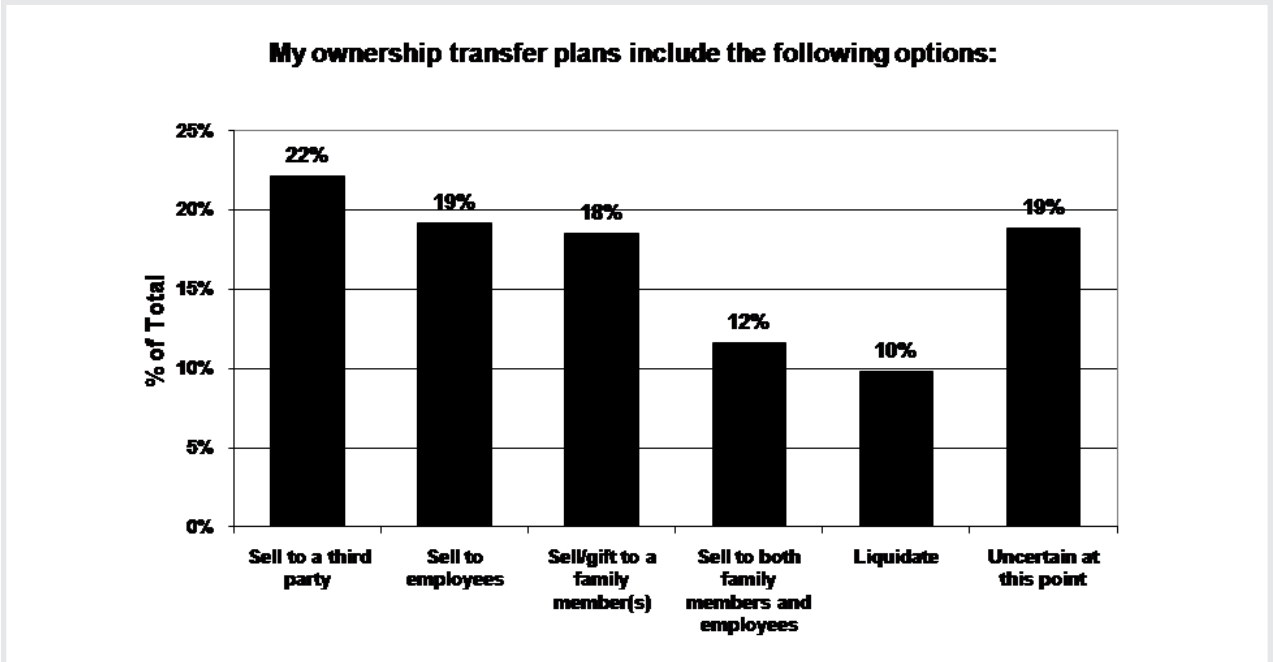
Our research, conducted as part of our Exit Strategies report, shows that "someday" is here for many owners. Consider that over the next 10 years, approximately 59 percent of all current HVAC/sheet metal construction firms will be under new ownership and in some cases, out of business and liquidated. Then consider that only 48 percent of survey respondents said they are currently working on an internal ownership transfer plan, and 22 percent expect to sell to a third party. In reality, only about 10 percent of transitions take place in a third-party sale. This is because there are few third-party buyers for contractors. ("Exit Strategies") Whichever way the plans work out, 19 percent of respondents had no idea of how they were going to transfer ownership—15 percent of that group were older than 51—and 10 percent expected to liquidate their business' assets. Translated to all HVAC/sheet metal construction firms, we are talking about a lot of money, jobs, and people's futures.

6 HIGHLIGHTS FROM THE EXIT STRATEGIES REPORT SURVEY OF HVAC/SHEET METAL CONSTRUCTION FIRMS

- 67% of respondents older than 50 plan to sell all of their stock in their company within the next 10 years, while only about half (48%) of the owners older than 50 are currently working on ownership transfer plans.
- Less than half of the companies surveyed are working on an ownership transfer plan.
- Less than half (42%) of owners older than 50 have competent successor management who could run the business today.
- About 20% have no successor and expect to hire externally.
- The two major concerns for about half (55%) of owners about transferring ownership were:
  - Employees cannot afford to purchase the company.
  - Owners are not ready to transfer ownership yet.
- Only 6% of companies expect to grow by acquisitions; however, 22% expect to transition their company by selling to a third party. ("Exit Strategies")



Early planning and implementation of the transition plan will help to make the change less disruptive for both current and new owners, employees, bankers, and especially customers who may be as concerned as anyone when a company changes hands.



7 SETTING GOALS AND PLANNING: TAKING A HARD LOOK INTO THE FUTURE

Let's face it, it isn't easy for most owners to think about the end of their careers or selling their business and going into retirement. It sounds like the end of the story and the end of a life. There is no doubt about it, the subject of ownership transition will cause some soul-searching, but it is also an important business decision. The goal is to assure the continuation of something that current and past owners have built, which includes the value built up in the company, its reputation, and continued value for the new owners. In many cases, the new owners will be family members and/or friends and long-time employees. In all cases, we are talking about change and making that transition as smooth and profitable as possible for shareholders and all involved. Early planning and implementation of the transition plan will help to make the change less disruptive for both current and new owners, employees, bankers, and especially customers who may be as concerned as anyone when a company changes hands.

In the three brief scenarios that follow, Larry, president of the fictional LWi Company, might be the one owner in our examples who would be most troubled when considering retirement and ownership transition. He is only a few years away from a normal retirement age and hasn't started his plans for his business or personal life. In contrast, Josh is looking forward to retirement and has already put a few pieces in place toward transitioning the company; but Josh is about to realize how much more he must do to shape and implement his plan. Jennifer, in Scenario 3, is much younger than our other two examples, and as one might expect, she sees having an ownership transition plan as part of normal business and strategic planning. Jennifer has some big ideas for making the company better before she retires.

These scenarios are fictitious, but they are designed to represent situations similar to what many owners in the HVAC/sheet metal industry may be facing in their own companies. The scenarios are brief and necessarily leave out a lot of details that need to be considered in real-life situations; but they will allow us to discuss the various options and strategies available for business continuity and transition in each case. Following each scenario, we will compare the situation in the example business with the results of our research on exit strategies, leadership selection, and mentoring and coaching concerns. The scenarios will then serve as examples in a more detailed discussion of ownership transfer and business continuity issues and solutions.

8 OWNERSHIP TRANSITION AND BUSINESS CONTINUITY—THREE STRATEGIC SCENARIOS

Scenario 1: LWi, Eleventh-Hour Exit Planning

They called him Larry the Welder when he was just starting the business with his partner Bob, in the late Sixties. (That's where the name of the company, LWi Mechanical, originated from, Larry the Welder, Incorporated.) Larry met Bob right after Larry got out of the Navy in 1976. Bob had a small, established contracting business, mostly working on piping and ductwork for local paper industry customers. Work was steady, but he wanted to expand. When he saw

a chance to bid on a chain of new gas stations, Larry was recommended by a friend as a certified welder who had experience on nuclear submarines and ASME pressure vessels. Larry and Bob won the work and, by the next year, they became partners.

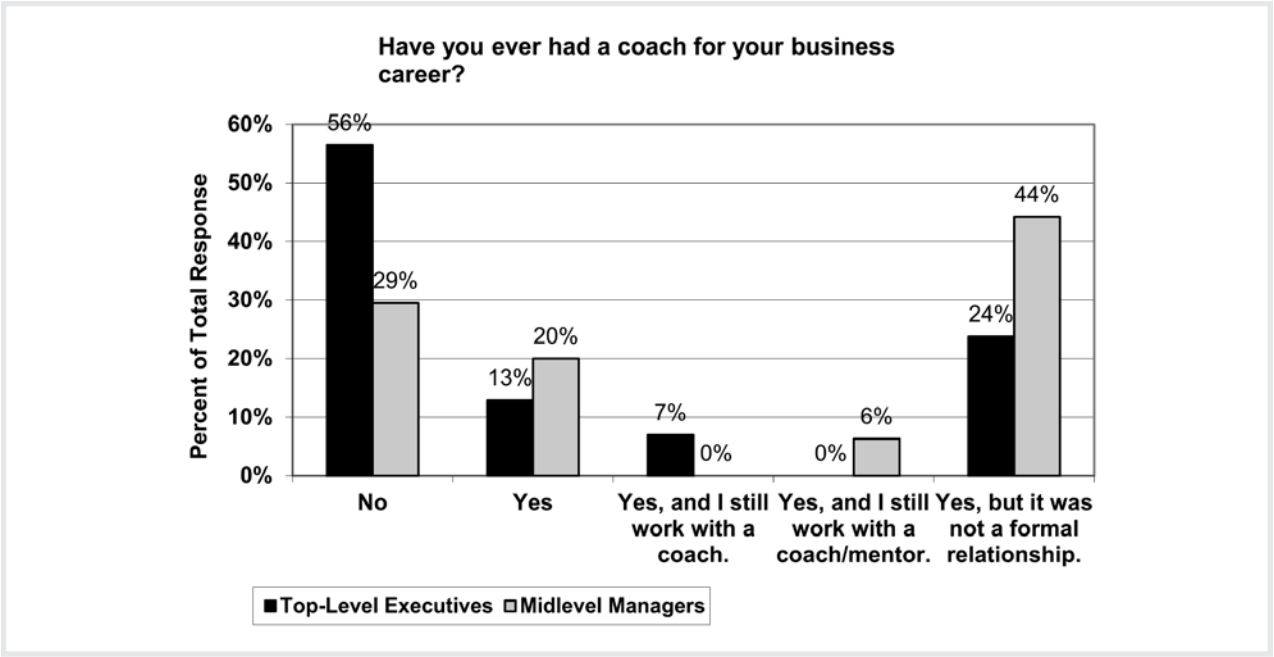
In the next 40 years, the company grew to around $30 million in annual revenue. Bob passed away in 2000 and Larry became the sole owner according to their buy/sell agreement. Bob had been the CEO of the business and always handled the financials. Larry was more operations-oriented with a "can-do" attitude he picked up in the Navy. Business fell off severely after Bob's passing, mostly due to the economic slowdown in the wake of 9/11, but Larry was now beginning to appreciate just how much Bob did to bring in new work. Larry always felt that the key to their success and profitability was keeping a lean management team, and he was able to add the necessary skilled labor from local union halls when backlogs spiked on big projects.

LWi still had a strong reputation in the industry. Local business was good, and it had branched out across the whole state in the years since it started. However, the Great Recession brought its backlogs down to just a few months. The current strategy for the next few years called for increased service work, but that meant hiring more field managers and estimating staff, which went against Larry's lean, low-bid business sense. Besides, he was 62 and started to think it was time to retire. A large firm from out of state tried to talk him into selling a few years back when business was good, but he had said "no thanks." He had not had any more offers for several years, so now that he was almost ready to retire, he wasn't sure how he was going to do it without losing the equity he had built up in LWi. Moreover, when he looked around the office at his long-time dedicated staff, he knew most of them were thinking about retirement too. After his partner passed away, he made Sam, the manager of estimating, his vice president, but Sam had no desire to become an owner. Larry knew it was time to make a new plan for the company and his own future. His board of directors was strongly recommending a transition plan. He had put it off too long.

Statistical Comparison of Scenario 1 with HVAC/Sheet Metal Firms Surveyed

Larry, CEO and owner of LWi, shares a number of characteristics with owners of HVAC/sheet metal construction firms:

- 25% of owners of HVAC/sheet metal construction firms surveyed were older than 60.
- Less than 18% of HVAC/sheet metal construction firms have around $30 million in annual revenues.
- In the event of an owner's death, for 15% of firms surveyed, the remaining partner would purchase shares.
- 22% of owners have owned stock in their companies for more than 20 years.
- 28% plan to stop being active in the firm in fewer than five years.
- 19% have no potential successor management and would need to hire from outside the organization to prepare for an internal transition.



- 66% have buy/sell agreements that dictate what happens to the company's stock in the event of termination, death, or disability.
- 49% of owners have occasionally been approached by potential buyers; 64% may have been approached but have never had discussions with potential buyers.

Like 56 percent of executives of HVAC/sheet metal construction firms, it is clear that Larry has never had an executive coach in his career. He, no doubt, benefited from the experience of his partner Bob, but Larry is largely a self-made man. He prides himself on having a lean management team; but even the promotion of Sam to vice president likely caused a gap in skills for the estimating department. Sam, now vice president of LWi, is still focused on the estimating department. It is apparent that he was promoted more because he was an old, trusted friend and employee than for his ability to take on new roles or his interest in becoming an invested owner.

Being lean has helped LWi keep costs down and helped it to win low-bid work, but now that Larry is looking to reinvigorate the company and improve his options for transferring ownership, we expect he will have difficulty finding people within the company to move into leadership positions and become the next owners of the company. At 62, Larry still has several options to choose from in order to plan and execute a successful transition, but his options will quickly become more limited in the next couple of years.

9 PLANNING EXIT STRATEGIES AND IMPLEMENTATION: LWI CASE

Company owners now in the position of Larry the Welder, sole owner of LWi—getting on into their 60s without a working exit strategy—might admit they have put it off too long. At this point in his career, Larry and his outside advisors will start to rule out several options. Going public is out of the question; the company is too small to attract investors, and sales are down, among other concerns. Larry had one potential buyer several years ago, but he wasn't ready to discuss selling the company

"We need mentors for our young employees. It is a way to continue the pride we have in our trade. We honestly do not have enough young people coming into our business." (Owner, $20 million to $50 million HVAC/sheet metal company)

at that time. Since his partner passed away, he has been too busy keeping the company running and finding new customers. Without a number of changes in management personnel, an internal sale seemed unlikely. Most of LWi's trusted and capable employees have been with the company since the early days and are not much younger than Larry. No employees have ever approached him about buying shares in LWi. Since the information was not given in this case, we can assume Larry has no heirs to take over his shares of the company. At this point, Larry expects his only option is to liquidate the assets of LWi. Is there another way?

If Larry decides to liquidate his firm, he is in company with 10 percent of the owners of HVAC/Sheet Metal firms we surveyed. According to the Exit Strategy report:

> *Most business owners view liquidation as the least desirable option. It has the principal disadvantages of being time-consuming and can erode value with the costs of winding down projects, continued overhead, and selling assets. Owners who liquidate their firms have the advantage of not having to worry about succession issues or a sale process. This option is most appropriate for smaller operations where one person principally drives the business.*

Like most owners, Larry's equity is largely tied up in the business. Although he has enough personal wealth outside the business to live comfortably in retirement, he does not like the idea of seeing all the work he and his partner had put in to build LWi just disappear. He also does not like the idea of having to tell the staff who have worked with him for many years that the company is going out of business.

For Larry, the best option seems to be committing to stay on for at least another five years and starting a search for new leadership that will be interested in purchasing the company over time. Working with his board of directors and outside advisors, Larry should put together a strategic plan that includes an ownership transition plan. To implement that plan, LWi will also need to prepare new job descriptions and goals for the types of leadership and management positions it needs to fill. One of the first hires on the list might be an executive with business development skills who could take Bob's place and help get the backlog filled again. Each of the new hires at the executive level would be offered salary plus stock incentives. To assure that the plan was equitable, Larry and his board authorized a new valuation of the company along with estimates of liquidation value and a stock incentive plan.

To institute the plan and assure the new hires are up to speed on the company and its workings, Larry should start a mentoring program to take advantage of his own experience as well as that of members of his staff, such as Sam. While Sam is not interested in ownership, he has always been a good leader and mentor for the estimating department. Nonetheless, Larry should arrange for his internal mentors to be trained in mentoring too. Additionally, for those new hires who showed promise of being the next owners, Larry should hire an outside firm to provide coaching. He wants to be able to make the best choices for the next president and CEO, so he can step down in confidence that the company will be in good hands.

It is not unusual for owners of construction companies to be a lot like Larry. The day-to-day demands on the owner's time to find new business, oversee financial concerns, answer calls, and keep in contact with customers often take more time than there is in a week. Many of these functions should be delegated to others but, in a flat and lean organization like Larry's, there are few, if any, leaders and managers to delegate to. For the next five years, owners in this position will need to spend a good deal of their time working on the company not just in the company.

In Scenario 2, we present a situation where one transition is in the process of being completed, and there is more time to work on a business continuity plan than there was in Scenario 1. Although many of the challenges are the same as in Scenario 1, we add concerns faced by family-owned businesses as well as the need to incorporate business continuity into the overall corporate strategy.

Scenario 2: Worthy and Son Sheet Metal—Continuity and Wealth Preservation

Josh owns 55 percent of Worthy and Son Sheet Metal Corporation shares, and another 30 percent of the company is owned equally by his mother, his uncle Allen, and an old friend of the family who had loaned his father the start-up money for the business 40 years ago. His young vice president, Carl, owned the remaining 15 percent as part of an agreement with Josh, entered into six years ago, to make shares available as part of Carl's bonus, as long as profits improved each year. The plan to use stock as a bonus incentive for Carl had worked well. Carl, who was primarily responsible for operations, was more engaged in the business now that he was a part owner. He had improved productivity and was working on refining reporting systems. However, the recession had hit the company hard. Revenue was down 35 percent in the past year, and profit was near zero. A company with $20 million in annual revenue was now looking at $13 million. Carl was discouraged and questioning his security, now that he saw his net worth at risk. Josh had seen downturns before, but it was time to take a fresh look at the company's strategic plan for the coming year, and the next five years.

Josh had been president and owner of Worthy and Son since his father passed away three years ago, at age 75. Josh, now 53, had worked for his father since he graduated from college with his business degree. Although his father had worked all his life, Josh had other plans. He and his wife wanted to travel more, now that their two children were grown and finishing college. He was only mildly disappointed that his children had no interest in joining the business. His father had been proud to add the "and Son" to the name of the company, but now that the economy was in a funk, he was happy to learn his daughter had several offers in marketing from high-tech firms. His son was finishing a degree in environmental sciences and trying to decide whether he should teach or move out to the woods somewhere.

Josh hadn't set a retirement date, but knew he had to make that transition part of the company's next strategic plan. He was concerned that Carl might lose interest and move on, now that business was so slow. They hadn't talked about it

much, but Josh had been assuming Carl would be in position to run the company when it was time for Josh to retire. Carl understood the technical side of the business really well, but he had several weaknesses, including sales and people skills. Josh thought Carl just needed more experience, but he was beginning to wonder when and how that was going to happen. If it didn't work out with Carl, there were no other candidates for ownership within the company. This was Josh's long-range concern; first, he had to get the company back on track, find more work, and return the company to profitability so he could work out purchase agreements with the other shareholders. His father's inheritance had left his mother in good financial shape; his uncle and the family friend were both retired and had no interest in the company anymore. He needed more engaged shareholders with a stake in the company who could lead the next generation.

Statistical Comparison of Scenario 2 With HVAC/Sheet Metal Firms Surveyed

Josh, majority owner of Worthy and Son Sheet Metal Corporation, is only 53 years old, but he is already thinking about ownership transition. This is partly due to having watched his father work right up until he died, even though he knew that was what his father wanted to do. Josh is also the beneficiary of the plans his father had made for him to take over the company. His father had left him and his family in good shape, that is, before the recession hit. Josh shares a number of characteristics with the owners of HVAC/sheet metal firms surveyed:

- 72% of firms surveyed had less than $20 million in revenues.
- 39% are between the ages of 51 and 60.
- 48% of owners purchased shares in their company from a family member, 15% inherited the shares.
- 50% of owners had potential successors that needed further development.
- 32% of owners were concerned that employees could not afford to buy the company.
- 40% are gradually selling their stock over a specified period.
- 47% of owners do not intend for family members to run the business in the future.

In Scenario 2, it is apparent that Josh's father mentored him. That experience, along with his business background, seems to have put him in a good position to carry on the family business. While he didn't have a formal ownership transfer plan yet, he had begun to bring Carl into the company ownership and he also realized the need for more active shareholders to help strengthen the business and return it to growth mode. However, it isn't clear that Carl is either ready to take over leadership of Worthy and Sons or will have enough money to do so unless the business can become more profitable. While 65 percent of HVAC/sheet metal business owners think one person should have controlling interest in the firm, Josh may need to find other potential owners and shareholders in order to achieve his personal plan of retiring early. Furthermore, whatever his plan, he realizes that it must work closely with his business strategy to grow the business.

10 PLANNING EXIT STRATEGIES AND IMPLEMENTATION: WORTHY AND SON SHEET METAL CORPORATION

Unlike Larry, Josh has the benefit of recently going through one ownership transition. For many years, he had worked with his father and was well prepared to take the helm when his father passed away. However, now that he was the majority owner, he realized he had many new and largely unanticipated responsibilities to both shareholders and stakeholders. Josh's father had been both father and mentor—he had learned as much as he could from his father about being a leader and running the business. Now, Josh knew he needed a new mentor and coach. He decided to get the board's approval and engage a coach for himself as well as for Carl. He was concerned that Carl was losing interest, and he wanted to encourage Carl to take on new responsibilities and hire some new people to reinvigorate the entrepreneurial energy in the company.

Other than Carl, Josh did not think anyone else was ready to run the company should he suddenly become unable to do so. Having grown up hearing about the business, Josh understood the industry well even before he went to college; then his business background helped him understand the complex financial, legal, and marketing processes of running the business. He needed to strengthen those positions in the company and assure there were up-and-coming leaders to help the company grow. Josh clearly wanted the company to grow internally and continue to the next generation, even if the next generation did not include Worthys. Maybe there would be Worthy grandchildren someday.

Owners like Josh often have both a personal and a business goal of ensuring the business recovers and succeeds. Josh wants to preserve the wealth his family built up in the business as well as to provide a legacy for his father, his children, and the company employees. However, he has no illusions about the value of the business, both as it is now and the potential for its future. His desire is for an internal sale of stock over time, first to sell the shares of his family and the family friend, then to reduce his own investment in the company and retire in 10 years or less. This will require finding and hiring new potential leaders and strategically increasing the company's share of the market. With more owner-employees, he thinks he can attract the right people and reinvigorate company growth.

In the case of Worthy and Son Sheet Metal Corporation, we have a leadership transition in process. The son was the sole heir apparent, and his father had made sufficient arrangements for him and his mother. However, Josh is realizing that business continuity is a process. Things change, the next generation may not be just like the founder, and markets and economic factors can affect even the best-laid plans. Owners concerned with business continuity should have several potential successors and leaders prepared to step into new positions. Even if there is a good plan for leadership succession, someone like Carl could decide to leave for various reasons. Plans need to consider different contingencies.

With Scenario 3, we expand the time horizon for planning owner exit strategies another seven years. Like Scenario 2, Scenario 3 also presents a family business with ownership passing to an heir. In this case, the company is entering the third generation. Often owners in the construction industry hope to see this type of transition, but it is becoming rare in practice. In Scenario 3, there is much more time available to develop the right personnel to accomplish organizational strategies, including incorporating business continuity into the plans.

Scenario 3: Jameson (and Daughter) Sheet Metal—To the Third Generation and Beyond

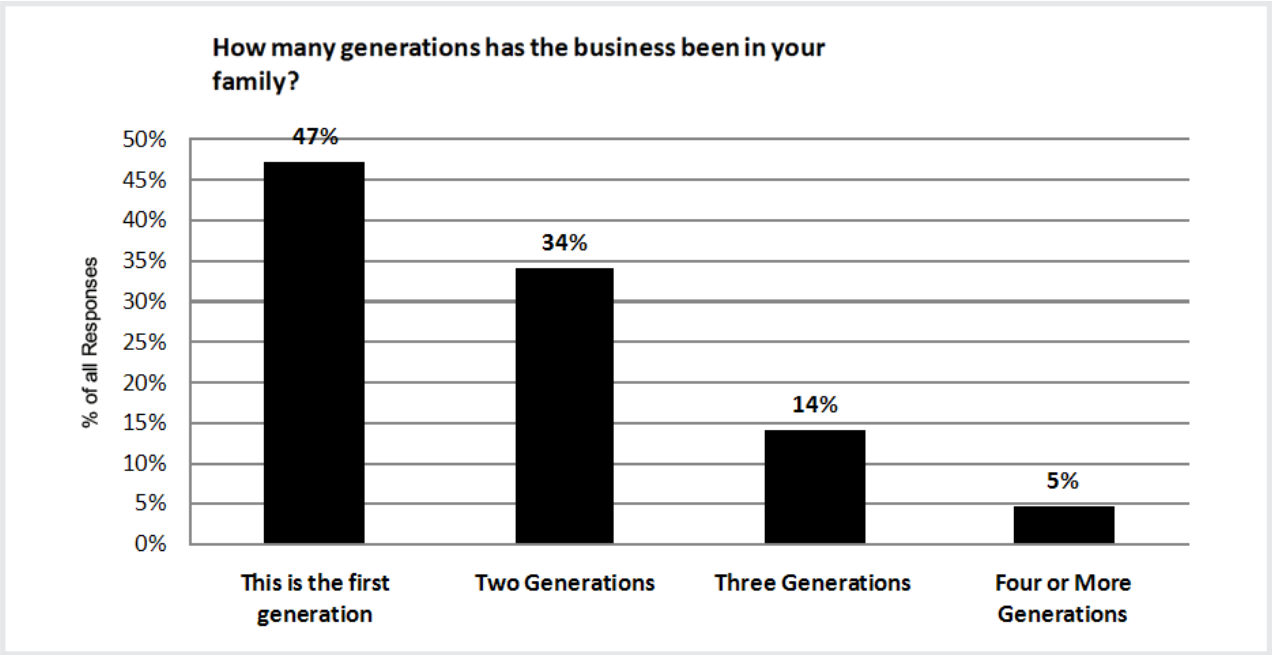
At 46, Jennifer was named president of Jameson Sheet Metal. The company was started many years ago by her grandfather, but nothing was just given to her. Jennifer had joined the union when she was 21. She studied nights and weekends to become a journeyman, and then she went to college and earned a business degree. Jennifer had inherited shares from her grandfather, and she was planning to buy out her father's shares. Her father, Fred Jameson, was officially retired but he stayed on to be Jennifer's mentor. He was also the primary relationship manager for some of their largest government contracts. Her father's partner, Ben, was still CEO but he planned to retire in the next five years. Ben had no heirs, so the question was whether Jennifer would be able to buy him out, or whether others in the company would be in a position to do so.

As a journeyman, Jennifer saw the business from the bottom up and worked on a wide variety of projects. She later became a project manager, and it was around that time that she began thinking about the company's business. Eighty percent of the business was from government contracts. That's how her grandfather started and built up the company after WWII. Now she realized this type of work was becoming very competitive, and the company needed to look at private markets in order to grow in the future. She hired a research firm to conduct a market study of growth potential in several markets that Jameson Sheet Metal might profitably serve.

The research firm found some specialty niches that were underserved by competitors.

She projected that, in time, Jameson Sheet Metal could double its revenues in those markets and diversify its services. She liked building things, and now she was looking at building the company.

Her children were still too young to think about whether they would want to work in the company and become owners someday, but she still wanted to keep the legacy growing in honor of her father and the memory of her favorite grandfather. First, she needed to hire a few managers who had contacts and experience in the private sector. She also knew from her business school studies that her new strategy would require buy-in from current employees, and maybe some drastic cultural changes. She had always been someone in a hurry, but her experience told her that this might be a 10-year plan. Jennifer had learned in the field that, as much as employees talk about the need for change, they fear it too.



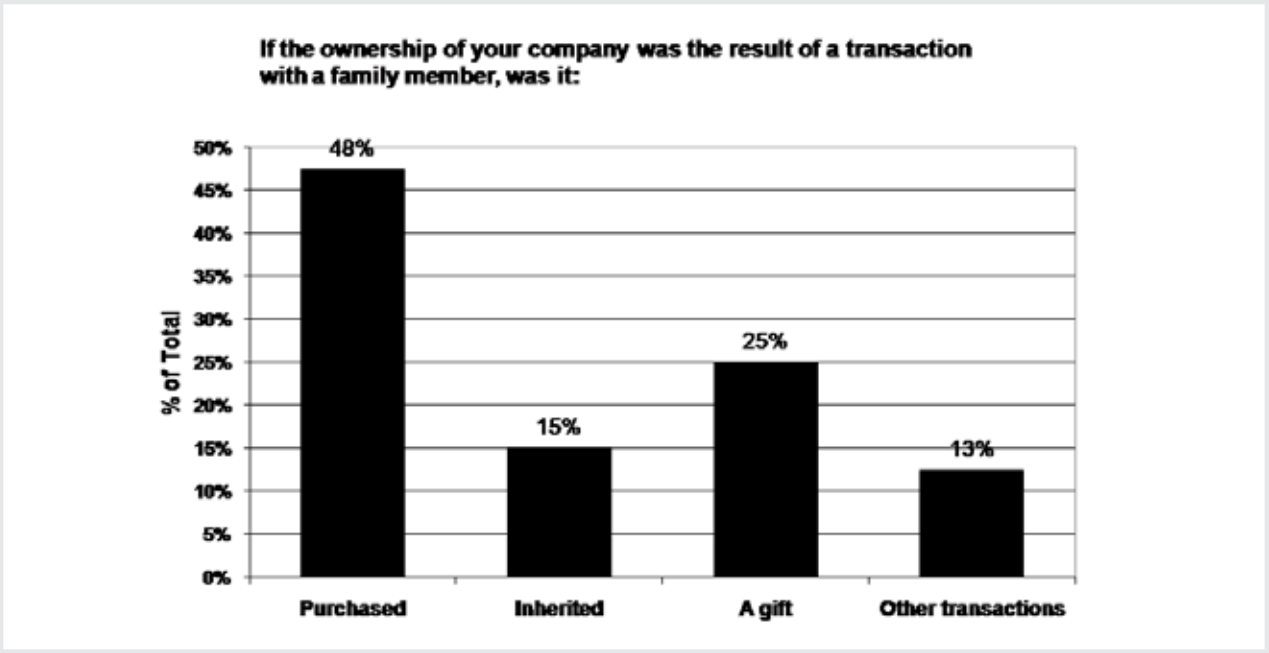
Statistical Comparison of Scenario 3 With HVAC/Sheet Metal Firms Surveyed

Jennifer's case is unusual in the construction industry. For HVAC/sheet metal firms surveyed, only 36 percent were owned by people younger than 50, and very few owners are women. Other research comparisons with Jameson Sheet Metal's case are:

- Only 14% of companies surveyed were in their third generation as family-owned businesses.
- 61% of owners participating in the Coaching and Mentoring survey were owner/members.
- Only 25% of companies responding to our Exit Strategies survey worked in two or more geographical markets.
- 59% expected to grow internally, and 26% expected no growth in the next 5 years.
- 18% of current owners plan to sell/gift their shares to family members.
- For 62% of current owners, in the event of death, their shares pass to their heirs through their estates.
- 32% of executives surveyed had parents as informal coaches.

The New Horizons Foundation Leadership Selection Practices report states, "The key for selection of employees from among family members in family-run businesses is to create levels of objective criteria required for a family member to advance in the company." It is not clear from our case if Jennifer's rise in the company was along a predetermined path or if her capabilities were matched up against objective criteria. However, it is clear that Jennifer blazed a trail that others might follow if they want to move up in the company.

Of the three scenarios presented, Jennifer Jameson is the only executive who appears to be consciously considering the company culture in her thinking. It also appears she learned much about the company and its employees by rising through the ranks as a journeyman, and now as an owner. The same can be said for Larry, but his position as founding owner left him little time to think about company culture as it grew around him.



In her new position as president, Jennifer will be immediately challenged to find and select the right leaders to help move Jameson Sheet Metal into new markets. She will need to express her plans in a formal strategy that includes leadership transition.

11 EXIT STRATEGIES PLANNING AND IMPLEMENTATION: JAMESON SHEET METAL

There is no doubt that anyone with the drive and qualifications of Jennifer Jameson has the right stuff to run a construction business, particularly the family business she grew up in. Jennifer knows the business inside and out, has the energy and drive to help it grow, and has the wisdom to realize she cannot do it all alone. She has a greater awareness of company culture than her peers, Carl and Josh, do. However, when it comes to transferring ownership in the future, at just 46, like 19 percent of those in the industry we surveyed, she is still unsure how that will be accomplished.

At this point, Jennifer would likely want to keep her exit plan flexible. One of her children may want to join the business someday. In any event, she wants to see the company grow and prosper for her family and its employees. Valuing her own learning experience, she wants to assure that selected employees receive mentoring, coaching, and training. This program will be tied to her ambitious plans to change markets and grow into new areas. Jennifer has a lot on her plate and will need to work with her management team and advisors to create a detailed plan to attain the company's goals and her own personal goals.

Billion-Dollar Decisions

In March 2011, the business media reported that David Sokol, heir apparent to Warren Buffet, CEO and CIO of Berkshire Hathaway, had resigned. So what? Although apparently in good health, Warren Buffet is 80 years old. The announcement about Sokol—and about some potentially less than ethical stock purchases by Sokol—caused Berkshire's stock price to drop several percentage points. That's millions of dollars in wealth reduction for shareholders. To be sure, there are other likely successors at Berkshire. However, no one has stepped up yet and there is a lot of money at stake in assuring the company continues the success that Buffet has brought to it in his long tenure.

Jack Welch, former chair and CEO of GE, famously took at least five years to choose and mentor his successor. There were three strong candidates in the running before he and the board of directors chose Jeffrey Immelt. The process was sufficiently well known and publicized, and the transition went relatively smoothly. GE shareholders didn't lose value due the change in leaders. Welch has gone on to his next career to write the book on his business career, *Winning* (2005), and become a sought-after speaker and mentor to many audiences of young businesspeople.

Berkshire Hathaway and GE are among the highest value public companies in the world, so how could we possibly compare these companies with much smaller, closely or privately held HVAC/sheet metal contractors? First, it is notable how long it takes to groom, mentor, and chose successors. This part of the process is similar, whether the company is a multibillion dollar conglomerate or a $5 million dollar construction firm. Like transition plans and leadership selection in the largest companies, shareholder wealth is at stake. A construction firm could have fewer than 10 shareholders—mostly family members of the CEO—but those shares likely represent a significant portion of the family's wealth. Poor successor choice or vacancy of leadership puts that wealth at risk.

12 EXIT STRATEGY OPTIONS

The business press rarely reports on the transition plans of closely held HVAC/sheet metal companies, but one can expect the employees of the company will care about who the next leader(s) will be. Local banks and suppliers will have concerns about transition too. For mega-companies, sale to a third party is usually not a consideration as an exit strategy option. When it does happen, it is front page news that can affect the whole stock market. Therefore, the option for most companies working on a transition plan will involve selecting and grooming the next leaders and owners.

It is predominantly a decision about people. All contractors tend to tout their "people" as their "most important assets." As noted in our Exit Strategies report:

> *Dr. Fails, the founder of FMI, preached that a construction company is a group of people who know how to get work, do work and get paid for the work they do. The key is the people that make the business work. Take the people out of an HVAC company and what do you have? Take the top-three, -four or -five people that drive the business out of the business, then what do you have? The answer to both of these questions is, not much. Therefore, the first key to making a company salable is to have a strong organization*

of good people to drive the business for its new owners. Many businesses are very successful, but if the main driver of the business is the owner who wants to sell and leave the business, buyers beware. ("Exit Strategies")

The advice concerning preparing for a third-party sale can be applied to any transition, whether the new owners are internal owners, consisting of family and employees, or outside owners who are purchasing the business.

13 BUSINESS EXIT PLAN ALTERNATIVES: PLANNING AND IMPLEMENTATION

Business consultant and author Peter Drucker once said, "The final test of greatness in a CEO is how well he chooses a successor and whether he can step aside and let his successor run the company." No succession plan will work if the business lacks the people to make it happen.[1]

Most owners and CEOs of construction firms are business- and operations-focused. They want to win projects and complete them on time, within budget, and have satisfied, repeat customers. That's what makes the best companies successful, and that's what it takes to survive in the industry, at least until it is time to retire and get your investment out of the company and into your personal accounts. The CEO may have seen or been involved in hundreds or thousands of projects over his or her career, but most management succession plans or exit strategies are completed just once.

In "Exit Strategies for HVAC/Sheet Metal Contractors: Strategies for Equity and Ownership Transfer," we discussed the three alternatives for exiting a business—liquidation, third-party sale, or sale/transfer to employees and family. While ten percent of the HVAC/sheet metal contractors surveyed expect to liquidate as their exit strategy, we will only touch on that method briefly. For the other two alternatives, there are several ways to exit the business successfully. What all of them have in common is that plans for leadership succession must be part of the strategy. Third-party buyers want to see management commitment and depth of leadership. Internal sales to a management team, sales to family members, or plans to create an ESOP all require leadership that can take on the responsibilities of the company, and continue and improve its profitability over time.

Few, if any, owners will fit all of the characteristics of our fictitious scenarios. Motivations might be different; companies might have stronger or weaker management and leadership, or more or less family involvement. Some may even have management succession plans in place and working. However, most owners will share at least some of the characteristics of our scenarios. In any case, it is important to note that anyone undergoing management succession and exit strategy planning should seek advice from professionals. We hope this brief overview and introduction to the subject, and the underlying reports that inform it, will serve as a guideline with sufficient examples and information to guide readers in making decisions and, in most cases, encourage them to get started on their own personalized plans for the future and the future of their company.

14 TIMING MATTERS

Of the scenarios presented, Larry of LWi has the tightest time demands to put his plan in place and get it implemented. If his plan is an internal sale to a limited number of company officers, he first needs to hire or promote and identify those candidates. Considering the timing, the search could take a year or more to find the right people. Larry will also need to devote a significant amount of his time to interviewing and mentoring candidates. Timing is also a factor. Larry is considering his ownership transfer while the market is in a down cycle. In fact, the down cycle called the Great Recession has affected the valuations of every company in the industry. Larry will also need a Plan B that would include finding a third-party buyer. For either Plan A or Plan B, he will need to have the right management and leadership in place to bring the company through the recession and back to growth and profitability.

Any owner(s) of an HVAC/sheet metal construction firm who are in the same position as Larry (without a working management succession and strategic exit plan) will have a difficult challenge. The solution will require a detailed plan to reach the goal. Sale to a private third party typically takes one to two years—and this presumes a good market—and the new owner will expect the current owner(s) to stay on for several years. In brief, the companies in the best position for sale to a third party will be those with the best leaders in place and a sound, ongoing market strategy. In Larry's case, he has been successful in creating a lean company and it has been profitable over the years, but now he finds his company lacks future leadership coming up through the ranks. He will also discover that both good people and good buyers are scarce in today's market. As noted in our Exit Strategies report:

> *Many construction industry owners assume they can sell their companies when they are ready. The reality is that only about 10 percent of companies sell to a third party, with about 60 percent of companies sold or transferred internally to employees or family. The remaining 30 percent, particularly small companies, liquidate. Therefore, the first question a business owner who wants to sell should ask is if a third-party sale is feasible for his/her company.*

It is clear that anyone in a position similar to Larry's should start hiring new people, right? Yes, that is true. But starting that process without first putting in place a strategy—and a leadership selection process to match that strategy—is a recipe for failure. First, consider the cost of bad hires. Leaving the dollar costs aside, what would happen to Larry's plan if, based on a gut feeling, he hires a couple of people he thinks will be the next leaders and owners of the company and they leave two years from now because they receive a better offer? It happens frequently. According to our study, "Leadership Selection Practices for HVAC and Sheet Metal Contractors and Fabricators":

> *To create a selection process that will benefit the organization requires intentionality and structure. Many hiring managers select their "favorite" job candidate, or the person they like the most, without following specific criteria to select future employees. In the HVAC/sheet metal industry, hiring decisions are often based on "gut feel" or "intuition." According to a recent study, "the base rate for managerial failure ranges from 30 to 67 percent, with an average of about 50 percent." Organizations are selecting employees for important leadership positions, but seeing a very high rate of failure.*

Most companies have several "Sams" on staff, but few take advantage of these valuable resources to provide support for future leaders.

Much of the lack of success of new employees can be traced back to the selection and hiring process.

To ensure future success of the organization, leaders must improve their ability to hire and promote the right people to the right positions. Most leaders can recall poor hiring decisions they have made throughout their careers. Bad hires are warning signs that the selection process is not working as effectively as it needs to.

In Larry's case, his selection of Sam to help fill the vacancy left when his partner passed away was more from desperation than strategic succession planning. He simply put his best person in the position. Although Sam is not interested in becoming an owner in LWi, he has a wealth of experience and knowledge about the business that could make him a good mentor to the new people Larry is planning to hire. In the report conducted for the New Horizons Foundation entitled "Mentoring and Coaching Practices: Developing the Next Generation" (2010), we defined formal mentoring as:

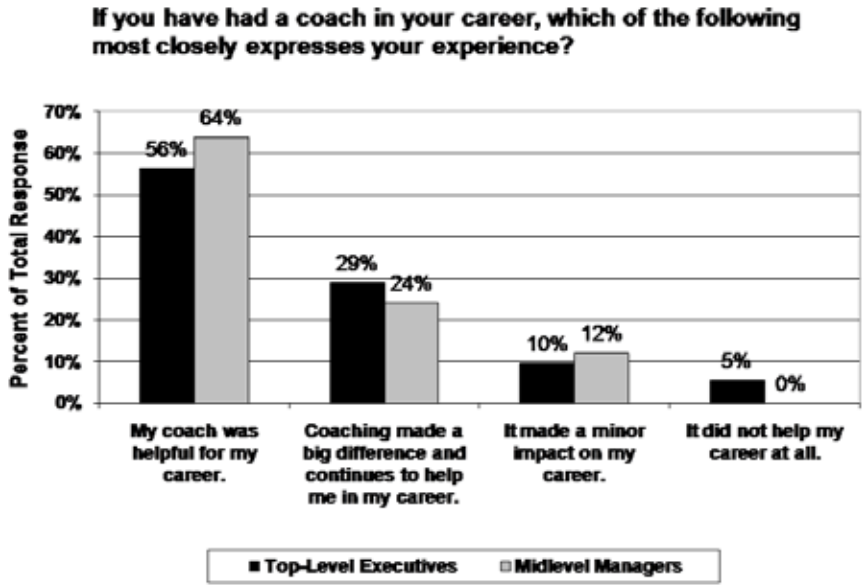
A relationship between an experienced person and a less experienced person for the purpose of giving advice and support. The mentor provides wisdom, guidance and counseling as mentees advance their lives, careers and education.

Most companies have several "Sams" on staff, but few take advantage of these valuable resources to provide support for future leaders. From our survey for the Mentoring and Coaching Practices report, we learned that 88 percent of respondents had some informal mentoring in their careers, but only 1 percent of those surveyed said their company has a formal mentoring program. Since Larry thought of himself as largely self-taught—although he learned a lot from his partner—he expected others to learn the same way. In addition, it is a good idea to keep overhead low when working in a hard-bid market, so companies like Larry's work lean with bare-bones staffing. This is especially the case when severe downturns hit. It is a challenge for the construction industry to attain the goal for success mentioned earlier in this report: *to level out the peaks and valleys of the business cycle to avoid churning personnel.* Attracting the best leaders and building a sustainable business should be an ongoing practice, not just a cyclical concern or something that is done the year before the owners plan to retire.

When it comes to timing for business continuity planning, we can easily see how Larry and LWi will spend the next six months planning and evaluating the business, and beginning the implementation of the plan. It will take another year or more to get the new leadership team in place, then a few years to get them up to full speed and earning enough to buy Larry out. In the meantime, Larry will want to assure that potential successors are engaged and working to their fullest potential. Executive coaching is an excellent approach for accomplishing these goals. We define executive coaching as:

A one-on-one collaborative relationship between a professional coach and client that is focused on equipping the client to more fully develop himself or herself and to facilitate a shift in his or her knowledge and behavior. Executive coaching helps clients achieve bottom-line business results.

Only 13 percent of top-level executives and 20 percent of midlevel managers surveyed for our "Mentoring and Coaching" study had ever had formal coaching in their careers. About twice as many had had informal coaches. Of those who have had coaches in their careers, only 15 percent of executives said the experience was



of little help or no help at all. Most executives thought it was helpful to have a coach in their careers; it made a big difference and continues to help them in their careers.

If coaching and mentoring are such effective processes to bring executives up to speed to become the new leaders of the company, then why aren't these processes used more often? The chief responses to that question from our survey included: lack of personnel to coordinate it (28%); do not have time to meet with someone on a regular basis (19%); and don't know enough about how it benefits the organization (15%). Small, flat organizations usually do not have enough of the right people to coordinate such efforts. That is when companies like Larry's will need to turn to outside advisors. However, the concerns of not having time and not knowing enough about the benefits loom larger when it is time to prepare the company so the owners can exit in the next five years. At that point, it becomes necessary to make time to coach and mentor the right people. The answer to not knowing how coaching and mentoring benefit the organization can be thought of in the negative. What if the company does not have the right people in place when it is time to transfer ownership? The value and future value of the company decline.

In our second scenario, Josh's parents may be among the lucky ones. Although it is not clear if Josh will take the company further than his father did, he wants to see the business succeed before he is ready to retire. Josh has potential heirs that might run the business someday, but that seems unlikely at this point. However, either his daughter or son may change directions in their lives. They are young and just starting to find their careers. Unlike Josh, they did not

Business owners sometimes assume sons or daughters will step up to the opportunity. This happens in some cases, and sometimes the next generation may take the business further than the parents could ever have expected. These parents should be very thankful. ("Exit Strategies")

spend a lot of time working in the company as they grew up. In fact, it is often a good idea that children entering the business have had work experience outside the family business. Josh is considering an internal sale, which would be the approach chosen by most of those we surveyed. According to the Exit Strategies report:

> *The third alternative is to sell the business to employees or family. The majority of business owners will use this alternative. Contrary to what most assume, an internal sale is often as lucrative as or more lucrative than a third-party sale. This is because the typical internal sale is done over a period of time, typically a 5- to 10-year period, so business owners can continue to participate in the earnings of the firm during the transition.*

At 53, Josh's plan—when he completes it—should fit the 5- to 10-year timeline for the typical internal sale process. However, he is beginning to realize how much time it will take to put the right people in place and assure they have the experience to be good leaders and the funds required to become owners. If one or both of his children decide later that they want to join the company, he should make sure they are hired, mentored, and coached to achieve the same level of competency he expects of others. Josh must also realize he runs the risk of alienating someone like Carl, who has been working to attain ownership for some time. If Carl sees another heir apparent, he just might leave to become a competitor.

Owners currently in the age group of Jennifer Jameson, 46, might think they can put off their concerns for ownership transfer and business continuity for at least another decade—they can and most often do. However, owners in Jennifer's position who have had the benefit of moving up through the company from journeyman to project manager, and other leadership positions, will better understand the value of creating career paths and opportunities for top performers. They will be identified early and enter a program for mentoring and coaching as their careers progress. In our example, Jennifer is looking at expanding services and markets, and reshaping the company to be more profitable and sustainable in the future. Whether or not the company becomes a fourth-generation business, she realizes it will need leaders with an entrepreneurial spirit to achieve its goals over the next 20 years. Jennifer is forming a vision as to future ownership and business continuity but still has all options open to her.

Ownership Strategy Alternatives

Ownership Structure	Private (Internal Sale)	Sale to Private Equity	Strategic Sale	Public IPO/ SPAC[2]	ESOP
Management Succession	■ Need 30- to 50-year-olds – To buy stock – To become successor leaders	■ Need 30- to 50-year-olds – To become successor leaders and owners	■ Need 30- to 50-year-olds – To become successor leaders	■ Need 30- to 50-year-olds – To become successor leaders ■ Need a "Public CEO and CFO"	■ Need 30- to 50-year-olds – To become successor leaders
Timing	■ 5-15 years ■ Develop a perpetual solution	■ 1 year for initial transaction ■ 3-7 years for second transaction	■ 1-2 years	■ 1-5 years – When market timing is right	■ 5-15 years – To retire ESOP debt
If Bonding Required	■ Need to maintain a bondable balance sheet ■ Need succession plan for surety	■ Need to maintain a bondable balance sheet	■ Buyer needs a bondable balance sheet	■ Need to maintain a bondable balance sheet	■ ESOP debt counts against bondable balance sheet
Valuation	■ Defined by what is practical – Need to complete buyout in a reasonable time – Support perpetual model	■ Driven by return on investment (ROI) ■ Constrained if bonding required ■ Participation in second sale adds to value	■ Negotiated	■ Comparable to public companies	■ Formal third party ■ Needs to be sustainable for ESOP to meet repurchase obligations

Ownership Strategy Alternatives

Terms	■ Payments are over time ■ Payments are at risk of performance of the business	■ Payment at closing but likely to include subordinated note ■ Additional payment at second sale ■ Continued participation by management is required	■ Cash with likely hold back/escrow and/or note ■ Earnout possible	■ Partial cash, significant stock ■ Management must maintain a significant stake or analysts/ investors lose confidence	■ Driven by owner objectives and balance sheet requirements
Strategic Implications	■ Emphasize leadership succession and development ■ Emphasize high return on Equity (ROE) strategies versus capital-intensive strategies ■ Acquisitions difficult ■ Asset or working capital-intensive businesses difficult	■ Requires second exit strategy (IPO, SPAC, P/E, management sale, strategic sale) ■ Requires coherent story and growth strategy ■ Leadership succession is a prerequisite	■ Limited candidates ■ Make money ■ Address leadership succession	■ Coherent story and growth strategy required ■ Must want to be public ■ Need a "Public Management Team" that is committed to growing and presenting the company	■ Board and management team have "public-like" fiduciary responsibilities ■ Need focus on management succession ■ Capital may be limited for growth in short term ■ Sub S ESOP defers tax on income ■ Need to create "control owner-like" entrepreneurial incentives

15 GOOD PLANS ARE IMPLEMENTED

The table "Ownership Strategy Alternatives" presents the primary options available to construction company owners for transferring their company ownership. However, this is not to be seen as a menu and does not present all exit strategy possibilities. For instance, it does not cover partnership tools such as Oldco/ Newco, presented in detail in the Exit Strategies report:

> *In conventional strategies, the stock of the existing company is sold to the next generation. In Oldco/Newco strategies, the next generation of employees forms a new company (Newco), and the selling generation retains the old company (Oldco).*

As discussed above, each business' situation will help determine which plan is most feasible and profitable. For instance, in our discussion about timing, we saw that owners in Larry's situation are limited largely due to the time required to complete the plan. Having more time, like the scenarios for Josh and Jennifer, opens up the available options, but there are still factors that narrow the list, for instance, not being sufficiently large enough to consider the option to go public.

At this point, we have mostly discussed how and why owners are often reluctant to decide upon a business continuity/management succession plan. They are too busy running the day-to-day business of the company; they do not know how to make an exit plan; they don't like the idea that they may retire one day, etc. In our more desirable scenarios, we have shown how starting to plan for the future of the company earlier has its advantages. Most businesses have an annual business plan and some form of strategic plan. A smaller percentage not only spend time making the plans every year or every few years, but use them as working documents to measure their progress and growth. Strategic plans, to be successful, must also include implementation plans and then measure progress in some way against those plans. The plans must also be known and used by those implementing the plans. The same goes for a management succession plan. A good plan is really a leadership document, and the best plans are implemented rigorously. The following is a review of the benefits of succession planning discussed in the Exit Strategies report.

16 THE BENEFITS OF PLANNING FOR SUCCESSION

The first benefit of planning for succession is that it provides an opportunity to reinvigorate the business' strategic direction. The goal of a successful transition is to turn employees into owners and to teach them to run the business. This is a great opportunity to think through the business strategy and plan how the next owners can take the business to new levels.

Second, it is an opportunity to develop leaders to grow the business. The current owners probably bring in the work, make the pricing decisions, and generally make key operating decisions. This is an opportunity to get the next generation to take increasing responsibility for these decisions and watch them grow as leaders.

Strategic plans, to be successful, must also include implementation plans and then measure progress in some way against those plans. The plans must also be known and used by those implementing the plans.

Third, it is an opportunity to build a sustainable corporate culture. Some business owners view the transition as a transaction when they sell their stock back to the company or the employees. In FMI 's experience, it is better to view it as a process where a sustainable transition model and corporate culture are established that will work when the successors and future generations decide to sell.

Finally, doing all of the above should make money for current and future business owners. The business owner should make money from the business in its ongoing profitability and sale of stock. For the employees, it is an opportunity to be owners and build wealth. Reinvigorating the business, developing leaders, building a sustainable culture and making money for the future business owners depend on having qualified successors ready to run the business. At this point, only 30 percent of those surveyed have qualified successors, and 50 percent said they have potential successors who need further development. In order to develop their successors, most owners responding involved successors in business development (78%), internal leadership development programs (66%), preparation of budgets (60%) and reviewing financial information (58%).

When more potential successors understand the business, the depth in management capabilities strengthens both the owner and the business. ("Exit Strategies")

Integrating the business continuity plan with the strategic plan for the business, and doing this long before the current owners plan to exit the business, can improve the execution of the business and take some of the pressure off the owner's decision when it is time to sell his/her shares. For Larry, when he makes his next strategic plan, his exit strategy will be the primary focus and could look as though his only plan was to make as much money as he can before getting out of the business. Although many will ask what is wrong with that idea, it may make it harder to attract the right people to take over the reins. Even worse, LWi's best employees may start looking for jobs elsewhere due to concerns about their own security. Consider that other individuals in the business also have something like an "exit strategy" in their personal plans. On the other hand, for younger owners like Jennifer Jameson, building a plan that includes both a market strategy and a leadership strategy will help attract and retain the right people. Her leadership team will be more motivated as selected individuals have the opportunity to participate in the ownership and profits of the company. Owners in this position are more likely to focus on building a sustainable organization, not just short-term profit.

17 LEADERSHIP SELECTION

It All Comes Down to People

No matter where your company's situation or desired exit strategy falls on the Ownership Strategy Alternatives chart, it takes the right people to implement the strategy.

We opened the executive summary of our Leadership Selection report with the following:

> *The ability for organizations to effectively select the best employees for open positions is*

The goal of a successful transition is to turn employees into owners and to teach them to run the business. This is a great opportunity to think through the business strategy and plan how the next owners can take the business to new levels.

more important today than ever before. In an increasingly competitive landscape, the organizations able to leverage human capital effectively will have a clear advantage. After conducting interviews with key leaders of many HVAC/sheet metal companies of various sizes and geographic locations, interviewers discovered that most organizations in the industry struggle with finding the right people for open positions. To compete in the 21st century business environment, it is time for HVAC/sheet metal companies to re-examine their leadership selection process, making changes today to ensure they have the right people to overcome the challenges of tomorrow.

In good economies or bad, finding the right people is a challenging and ongoing task. However, many do not look at this task as being tied to their strategies, and few take a methodical approach to finding and hiring the right people needed to carry out their strategic plans, especially when it comes to preparing the necessary leaders for the future of the company.

One of the main reasons it takes so much time to create and execute a sound exit strategy is that there are really no shortcuts to finding and selecting the next potential leaders. It is rare that the owners of HVAC/sheet metal firms have children like Josh or Jennifer who are ready, willing, and highly capable of taking over the business from their parents. Sixty-two percent of firms surveyed said that, in the event of their death, the shares go to their heirs or estate. Absentee owners, like unprepared heirs or estates, rarely make good owners. Only 28 percent of owners said they had non-shareholder employees approach them about buying stock in the company. This means the next leaders and owners will need to come from within the company or through a sale to a third party. First, the current owner will need a method to evaluate potential leaders within the company; then, for positions that are unfilled or need to be created, he/she will have to look for leaders outside the organization. Most are not prepared to undergo this process.

Interview Training and Preparation

Getting the right people on board and selecting the next leaders for various positions in the company, including the top positions and owners, requires a structured process. For instance, too many organizations have employees conducting interviews who have never been through any interviewer training. Training interviewers does require an investment upfront, but will pay off greatly with interviewers who know how to focus on behavioral, not theoretical questions—who know the legality of specific questions, and who connect their questions with actual competencies required for success in the job. We discuss the detail of this process in our report for the New Horizons Foundation entitled "Leadership Selection Practices for HVAC and Sheet Metal Contractors and Fabricators." The following is a summary of the leadership selection process from that report.

18 BUILDING AN EFFECTIVE LEADERSHIP SELECTION PROCESS

Improving one's leadership selection process can be quite complex. The leadership selection process contains many different elements, all of which need to be aligned and support each other for optimal effectiveness. The following steps present the process in a sequential order, but once the process is ongoing, many of the steps below will become simultaneous and ongoing for the organization.

Step 1. Interviewer training

Step 2. Job descriptions and job competencies

Step 3. Pre-selection process

Step 4. Recruitment of candidates

Step 5. Resume screen and qualification check

Step 6. Assessments

Step 7. Hiring interviews

Step 8. Evaluating interviews

Step 9. Reference check

Step 10. Decision

Step 11. Offer letter

Step 12. Medical exam

Step 13. On-boarding

Step 14. Obtaining feedback

Step 15. 30- 60- 90-day reviews

Leadership Selection for the Executive Level

The recommended steps above are designed to work at any level of the organization; however, special considerations must be made when hiring at the executive level. For obvious reasons, hiring at the executive level should require more time and effort to ensure selection of the right candidate. Executive failure is common, and the costs associated with a bad executive hire are significantly higher than at any other level. While estimates vary, research suggests the indirect costs alone can be between 8 and 12 times the executive's salary. When selecting top leaders, it pays to get it right the first time.

In addition to the general criteria, there are additional variables to consider when selecting executives. Some of these include:

- Personality - an executive's personality could have far-reaching implications on his or her performance.
- Leadership Skills - in addition to having the required management skills, does the candidate have the leadership skills?
- Relationships - does the candidate have relationships with key stakeholders? Can he or she effectively build new relationships with a far-ranging demographic?
- Derailers - does the candidate have potential derailers that could sink his or her leadership?
- Global Capabilities - does the candidate have the capability to think strategically on a global level?[3]

Some of the main on-boarding issues for executives include:

- Building stakeholder relationships
- Managing resistance
- Building credibility
- Assessing talent
- Learning the culture
- Learning the systems
- Leveraging strengths and avoiding derailing
- Managing conflicting agendas
- Building commitment toward a vision
- Evaluating progress

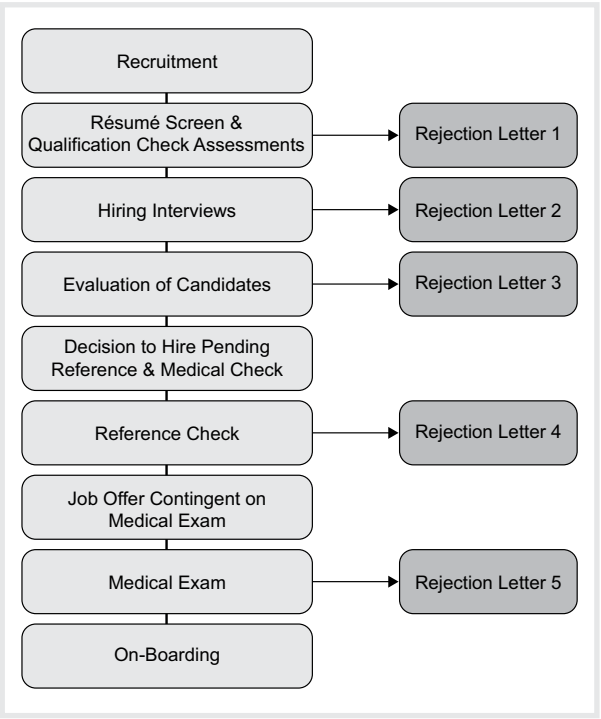
19 SELECTION FOR FAMILY-RUN BUSINESSES

Many companies in the HVAC/sheet metal industry are family run, which can sometimes complicate the employee selection process. The dynamic of succession planning in a family business is complex, because each family member feels that he or she has a vested interest in the company's future.[4] Transitioning from one generation of family members to another is not a simple process. In fact, only 34 percent

of family businesses successfully pass to the second generation, and only 13 percent make it to the third generation.[5]

The key for selecting family members to work in a family-run business is to create levels of objective criteria required for a family member to advance in the company. A family member should never be promoted simply because he or she is related to the owners—family member candidates should go through the entire selection process, including objective assessments and being judged by the same objective criteria as nonfamily member candidates. This makes creating competencies for open positions even more important. Does the family member meet or exceed all of the competencies required for success in the position, or does another candidate meet them more fully? This will help choose the right person for the job. Potential candidates in family enterprises are typically chosen based on biology; they may not have the necessary education, skills, experience, or interest to run the business. To prevent promoting family members just because they are family, organizations need to follow a structured process that will help remove those biases.

The Selection Process



20 HOW TO CREATE A MENTORING PROGRAM

The details of creating mentoring and executive coaching programs are presented in our report for the New Horizons Foundation in "Mentoring and Coaching Practices: Developing the Next Generation." The following is a summary from that report and, as presented here, serves as a guideline to show how leadership selection, training, mentoring, and coaching work together to provide the current ownership's leaders with a process overview to help prepare the next generation for business continuity.

The process of implementing a new mentoring program initially overwhelms some organizations. Creating a formal mentoring program is not a light undertaking, but it is critical to the long-term success of the organization. The following is an outline of the process for starting a mentoring program in a sequential step process. Many organizations find

it helpful to follow a detailed plan as they create a mentoring program that will work for their culture and strategic objectives. An organization desiring to create a mentoring program should adhere to these steps:

Step 1. Perform an organizational analysis to determine the feasibility of a mentoring program.

Step 2. Identify mentors and mentees.

Step 3. Match mentors and mentees.

Step 4. Train mentors and mentees.

Step 5. Determine frequency and duration of the mentoring program.

Step 6. Implement the mentoring program.

Step 7. Monitor the mentoring process.

Step 8. Evaluate the mentoring program.

Step 9. Conclude the mentoring partnership.

21 CHALLENGES OF MENTORING

While mentoring can be a powerful, effective means of developing people throughout the organization, to realize the full potential of the program, there are inherent challenges to overcome. Many organizations wrongly believe that mentoring takes too much time and will not work for them. While it is true that an effective mentoring relationship takes an investment of time and energy on the part of both the mentor and the mentee, many different companies, including organizations in the construction industry, have successfully implemented mentoring programs.

The initial perception of what it takes to run a successful mentoring program may be one of the largest barriers to organizations implementing such a program. In the survey on "Mentoring and Coaching," respondents said they did not currently have a mentoring program due to a lack of clarity around what it would look like, and there were concerns about employees making the necessary commitments, not having a coordinator for the program, and time and interest concerns. However, all respondents saw value in such a program for the HVAC/sheet metal industry.

One of the larger challenges organizations face when instituting a formal mentoring program involves the question of whom to include. While the most effective mentoring programs are selective in whom they choose to serve as mentors and mentees, this can be portrayed as elitist to those not selected for participation. Upper management needs to communicate the reasons behind selectively choosing mentors and mentees in order to prevent misunderstandings and ill feelings in the organization. Most organizations have a limited number of experienced employees who would be strong mentors and are willing to devote the required time and energy. Plus, being chosen for mentoring should be seen as an honor, not a given. Considerate selection acts as a reward for those employees selected—they have high potential and are possibly future leaders of the organization.

The best mentoring programs create a desire throughout the organization to work harder and smarter in an effort to be seen as having high potential and being selected for the mentoring program. While some employees may be discouraged, it will create an incentive for the more determined employees to improve their performance and earn selection as mentees.

Despite the best efforts of upper management, it is likely that certain mentor/mentee pairs will simply not work out. Identification of these pairs needs to happen as early as possible. If the problems are due to a bad pairing, both

the mentor and mentee should be assigned to different partners. If the behavior of one or the other suggests an individual will not be a good fit in a particular role (i.e., the mentee clearly is not open to mentoring), he or she should be removed from the program and allowed to continue to operate in his or her regular position without any penalty.

22 COACHING

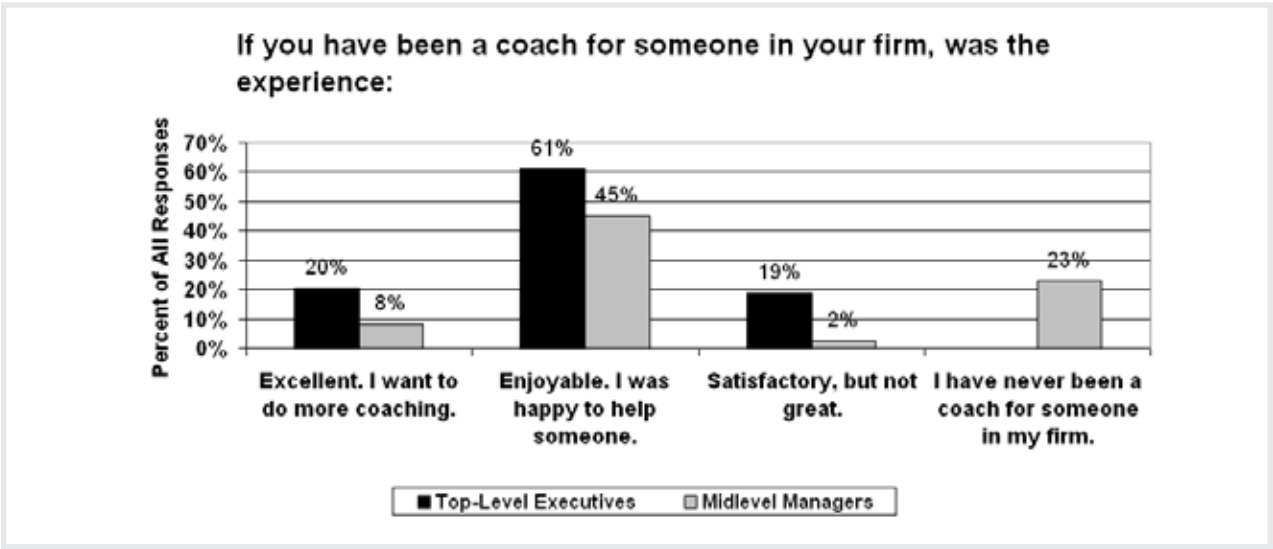
Organizations interested in coaching for key leaders have to navigate a wide variety of different types of coaches. Today, there are "life" or "personal" coaches, career coaches, financial coaches, health and nutrition coaches, fitness coaches, and many more; each of these coaches specializes in a different field. For example, a personal coach may help resolve behavioral, lifestyle, or spiritual issues, while a career coach may help with career change or advancement. The specific needs of the individual will dictate the type of coach needed. Roughly, half of all coaching is performed for life, vision, and personal enhancement, while the other half focuses on business, organizational, executive, and leadership aspects.[6] With so many options, it can be difficult to know the right type of coach for the individual and how to achieve business results for the organization.

Some organizations believe coaching is something that all of its employees can do for each other. In many instances, a more experienced employee will be told to "coach" a less experienced one. This can often include acting as a role model; creating opportunities for "stretch goals" for younger employees; delegating challenging tasks; and encouraging, motivating, and inspiring workers.[7] Although these behaviors are crucial and should be encouraged in all leaders, it would be a mistake for an organization to think this level of coaching is the most effective means of developing individual leaders and helping them to achieve bottom-line business results.

However, there are benefits to this peer coaching approach. In the mentoring and coaching survey conducted with HVAC/sheet metal executives, 81 percent of top-level executives and 53 percent of midlevel executives rated their time as coaches as either "excellent" or "enjoyable." This suggests that a number of individuals are open to the concept of coaching. Some organizations have found success with peer-centered coaching as a leadership development tool. While this is active learning, it is not the same as executive coaching—it often involves monthly training sessions where participants design and implement capacity-building projects focused on critical issues in their organization.[8] In a recent study, only 32 percent of respondents considered peer-centered coaching to be "very effective" or "extremely effective" because of the high variability of quality.[9] Often, peer coaches are given responsibilities without being given the necessary training. While peer-centered learning is encouraged if it meets the objectives of the organization, this type of learning should not be considered true "executive coaching."

23 EXECUTIVE COACHING

For organizations in the construction industry, one specific type of coach helps professionals produce business results—the executive coach. While there are tremendous benefits of executive coaching, the main distinction of executive coaching is that it helps clients achieve bottom-line business results.[10] Many leaders throughout the construction industry have used executive coaching to help achieve individual and business objectives that support the long-term vision and goals of the organization. Executive coaching is not a "rehabilitative" process, but one used to develop the ability of leaders.



24 HOW TO INSTITUTE AN EXECUTIVE COACHING PROGRAM

Organizations interested in executive coaching are often unsure of the specific steps to take to get the program off the ground. They want to ensure their leaders have qualified, experienced coaches who will help generate results, but they often face difficulty in navigating the wide range of coaching options. The process for finding the right executive coaches detailed in the Mentoring and Coaching Practices: Developing the Next Generation report is presented below in a 10-step sequential process. Many organizations find it helpful to follow a detailed plan as they work to get executive coaching for their leaders. An organization seeking executive coaching should adhere to these guidelines:

Step 1. Determine if there is internal support for executive coaching.

Step 2. Determine if the potential client is a good coaching candidate.

Step 3. Determine the individual and organizational objectives for executive coaching.

Step 4. Decide between an internal or external executive coach.

Step 5. Hire qualified executive coaches.

Step 6. Determine coaching duration.

Step 7. Select a coach.

Step 8. Consider additional factors.

Step 9. Measure executive coaching effectiveness at the end of the engagement.

Step 10. Decide on next steps.

Coaching that takes the perspective of a relationship built on equality is much more likely to create trust and the perception of confidentiality in the professional relationship. Coaching is not a process by which the coach "tells" the client what do to, but one where the coach helps clients discover the answers for themselves. For example, instead of a coach telling a client the five keys to delegating, the coach helps the client uncover the way his or her views and attitudes prevent him or her from delegating effectively. This approach is much more effective and longer-lasting.

Another important distinction between executive coaching and other forms of coaching is the focus on the organization in addition to the individual. Involving management in goal setting improves alignment between the client and the organizational value system. Coaching does not exist in a vacuum; it takes into consideration the specific values and culture of the organization while using specific goals to guide the process. These goals are determined by both the client and upper management. Evidence suggests a willingness to implement executive coaching in the HVAC/sheet metal industry. Our survey of industry leaders conducted for the Mentoring and Coaching Practices report found that 80 percent of top-level and midlevel executives thought such a program would be beneficial for their organization.

25 EXECUTIVE COACHING REQUISITES FOR SUCCESS

Coaching requisites for success:

- Clear internal communication
- Coachable leader
- Good chemistry between coach and client
- Support from top management

Communication between the manager and the potential coaching client is critical. In many situations, an individual is recommended for coaching by someone else in the organization, typically the person's manager. The manager must communicate why coaching will be beneficial for the individual as well as for the organization. If the purpose of coaching is not clearly understood, the individual might misinterpret coaching as a sign of underperforming or not being valued by the company.

The coaching client needs to understand that coaching is a positive undertaking—that the organization is investing the time and funds for coaching because it sees great potential. When a new client understands this, he or she typically approaches coaching in a much more enthusiastic manner, which gives the engagement a strong foundation upon which to build success.

Coaching should be a voluntary choice. Leaders should not be forced into having a coach; their initial unwillingness would likely create greater challenges for the coaching process to generate positive returns. According to the survey, 60 percent of top-level executives and 43 percent of midlevel executives believed a voluntary program would be more successful than a mandatory program in their organization.

Typically, those ready to be coached should be highly motivated and prepared to make necessary changes in their thinking and behavior to improve their results. Clients must also enter into the relationship understanding that they are responsible for creating their own results. (Coutu and Kauffman, "What Can Coaches Do For You?" 2009.) Some leaders enter into executive coaching expecting the coach to give answers and solve their problems. These unrealistic and misguided expectations typically end in disappointment. Executive coaches help their clients discover the right answers and insights themselves; they will not solve issues for the client.

An individual needs to have a general idea of what he or she wants to accomplish with an executive coach.[11] Clients need to know what their individual goals are for the coaching sessions.

After initial conversations with their sponsor and coach, they need to know how those individual goals align with the overarching organizational objectives. Without a clear goal in mind, it will be difficult to ensure progress.

Leaders must be willing to devote the necessary time and energy to the developmental process. This involves setting aside time to meet with the coach and making time to work on any assignments the coach may recommend between sessions.[12] Coaching sessions must be focused, uninterrupted time to work on making progress on the client's goals.

Leaders with significant character flaws or deep-seated behavioral problems are poor coaching candidates.[13] Coaching is a process whereby clients must be willing to look inward and examine the internal views, attitudes, values, and beliefs that may be preventing them from reaching their full potential. For this reason, people with deep resentment, severe narcissism, ironclad beliefs, or a victim mentality are unlikely to benefit from coaching.[14] It is critical to identify the good candidates at the outset to ensure that departmental resources are properly used. If an individual is unwilling to examine his or her behaviors and actions and is not open to making changes, the benefits from executive coaching will be minimal.

While some employees will be unwilling to be coached, many employees are coachable. Here are some of the major characteristics of coachable leaders:

- Change readiness
- Active engagement
- Clear goals
- Emotional intelligence
- Courage
- Sense of psychological safety
- Humility
- Ambition[15]

This is not a checklist for potential clients, where one missed characteristic would automatically result in disqualification from executive coaching. However, the more of these characteristics an individual possesses, the greater the likelihood the coaching process will deliver positive results.

The coach and client need to have good chemistry. Both the coach and client are human beings, with their own beliefs, values, attitudes, thoughts, and characteristics. Ideally, the coach and client will match up well and establish a sound partnership. However, there are times when the coach and client do not align, based on one of the above traits. Both the coach and client must be able to terminate the coaching relationship at any time and the client assigned a different executive coach with whom he or she more closely aligns.

There needs to be a strong commitment from top management to develop the client. Coaching is an intense process that takes an investment of time from the client. For this reason, the client's managers need to be aware of the time requirements and support the client's time investment. Top management should work to give supporting, positive feedback to the client and remove obstacles that would prevent the client from implementing his or her coaching plan. In organizations without commitment from top management, clients often feel like their managers have either not understood or did not support them taking the time during the day for coaching. These clients in turn must deal with added frustration and the lack of support, which tends to make coaching more difficult. It is no surprise that these unsupported clients tend to see minimal returns from coaching.

There are additional reasons why support from top management is critical for successful coaching. External coaching requires a monetary investment, so top management needs to support the organization using resources in that manner. Clients who have gone through the executive coaching process have seen returns many times higher than the initial investment, but they should not have to defend the use of organizational resources in that way. The

primary responsibility of the client should be to use the coaching to leverage his or her strengths and improve in developmental areas—not to defend himself or herself against his or her managers.

Finally, leaders going through the executive coaching process must focus intently on making changes to their thoughts, actions, behaviors, and beliefs. This is not an easy process, and it helps immensely to have top management recognize, accept, and support those changes in the client. Changes made are often part of a gradual process, so it may not be immediately clear to the client the extent of the changes they have made. It helps greatly to have the client's managers supporting those behavioral changes and encouraging him or her to continue to improve in those developmental areas. While coaching occurs between the coach and the client, the greatest returns on investment occur when the client's managers are also involved as supporting, encouraging members.

26 GETTING READY TO MAKE THE OWNERSHIP TRANSITION

There are four steps in the implementation of an ownership transition:

1. Defining objectives
2. Understanding transition options
3. Setting a timeline
4. Implementing

1. Defining Objectives

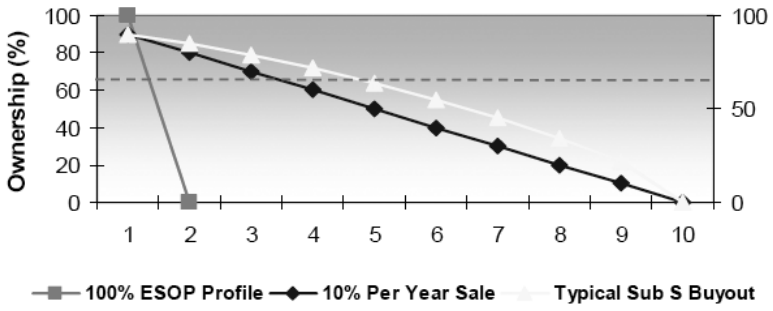
The first step for a business owner in assembling a plan is to define personal objectives, answering questions such as:

- When do you want to retire?
- How do you want to retire, cold turkey or in a transition?
- What do you want to do in retirement?
- What income will you have outside the business?
- What assets and liabilities do you have outside the business?
- What income do you want from the business in a transition?
- How much money do you expect for your stock?
- Who is going to manage the proceeds from the sale of the business?
- How soon can you get off any banking or bonding guarantees?
- Who do you want to have the opportunity to purchase the business—specific employees, family members, or a third party?

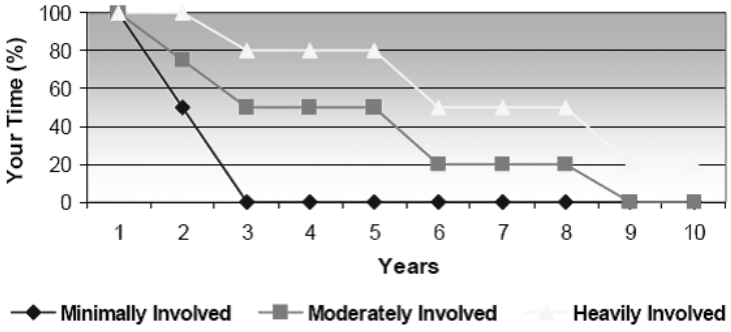
From the answers to these questions, the business owner can define his/her objectives. Objectives should also be defined for the business and the potential successors.

2. Understanding Transition Options

While only 11 percent of those answering the Exit Strategy survey said they were unsure or unaware of transfer or transition techniques, only 37 percent were currently working on an internal transfer plan; yet, as mentioned above, 49 percent expected to sell to employees, family, or both. Therefore, there is still a large gap between understanding and implementing the ownership transition.



Management Succession Timeline:



Once the owner's objectives have been defined, the next step is to gain an understanding of the technical options to facilitate a transition. What is the business worth—not just to the owner but also to a third party or in a realistic transition model? Is the business salable to a third party? Again, our research showed that only 10 percent of companies in this industry change hands through a sale.

Therefore, even if the business is successful, there may not be a buyer. Does the business qualify for a financial buyer? Again, FMI has indicated that private equity investors are very selective within the construction industry.

Finally, owners must determine if an internal sale would work for them, if they have the successor employees, what structure for an internal transition might work for the business, and how it would work for them.

3. Setting a Timeline

This exhibit shows typical timelines for an internal transition. Note that most internal transitions occur over a period of several years. Longer timelines are usually driven by the need to allow the business to generate enough profits to fund a transition. This actually increases the odds of the transition working; sudden change can be disruptive to an organization, while slow change provides the opportunity for successor manager/owners to develop. A longer timeline provides time to train and observe the next generation, it also put less financial stress on the business, as the business is more likely to maintain a strong balance sheet.

A third-party sale or private-equity recapitalization, once the decision is made to go forward, could take six months to a year or two, depending on the market. As previously

discussed, having an internal transition option as a backup to the sale is a prudent strategy.

4. Implementing

Making the decision to start a plan for an exit strategy is often the hardest step. It is so easy to put ownership decisions off another year, particularly when the business is busy or some uncertainty lingers. Hesitating in many cases can work against the owner, as key employees may leave, the business may drift, or acquisition markets may change.

27 CONCLUSION

The first step in solving a problem is recognizing that there is a problem. The next step is to understand how large or important the problem is in order to prioritize and devote the right amount of attention and resources to solving the problem. However, that is not the last step; the problem is not solved until there is a plan to attack it and that plan is fully implemented. The problem of recognizing the need for and planning an exit strategy should be a high-priority concern for all owners of construction firms. For most owners, selling their stock and exiting the business is a once-in-a-lifetime occurrence and, for reasons discussed above, there is a tendency to put those decisions off until later. Nonetheless, we have also tried to show that, even if the owner is not planning to retire this year, there are many benefits to having a working exit strategy and ownership transition plan. While some owners may think they have too many irons in the fire to worry about it now, preparing leaders and successors who will one day become majority owners of the company will help manage the day-to-day problems as well. Even if there is a plan to sell the business, the buyer will place a higher value on a company with a succession plan and depth of leadership.

The FMI investment banking team often recommends allowing 5 to 10 years for implementing a successful transfer of ownership, depending on the goals of the owner and the means of transfer and other factors. In reality, every company should have an ownership transfer plan in place, even if the owners do not plan to retire for many years. For one thing, bonding companies like to see an ownership transfer plan in place, but it should also be part of good business planning and strategy.

Informal practices of mentoring and coaching have been in use for centuries. The recognition of the benefits that individuals and organizations gain from the use of these practices has led to more formal and professionalized processes in order to make mentoring and coaching a part of the organization's strategy. HVAC/sheet metal contractors and fabricators working in an increasingly complex and competitive environment have realized that it takes time to train and prepare its workforce to work safely, accurately, and professionally. This has helped to provide a more stable and skilled workforce. However, such ideas need to be extended to the management and executive levels to ensure the continuity and growth of the organization, as well as attract top talent to the industry. Formal mentoring programs help guide employees with potential for promotions and preserve the knowledge and experience of senior managers within the organization. It is not only a way to pass on the company culture, but also a way to assure individual growth as well as strategic growth.

Mentoring and executive coaching programs must be supported by top management and seen throughout the organization as an honor for both those chosen to enter the programs and those who act as mentors or coaches. To preserve the status of mentoring and coaching programs as desirable, it is not recommended that these processes be used to correct problem employees.

Like mentoring, executive coaching has also been formalized and professionalized to ensure that individuals and future leaders receive good counseling in a professional, ethical, and effective manner. Executive coaching provides clients with someone who will listen to their concerns and help them discover areas of performance that need improvement. It is both a systematic and personalized process that challenges the client to look inward at behaviors and beliefs, and changes how those behaviors and beliefs affect outward performance. Executive coaching is geared toward those who want to improve, whether preparing for higher positions within the organization or achieving personal and departmental goals. For the organization, the use of executive coaching helps to provide well-balanced and insightful leaders who are better prepared to handle the complex challenges of leading and growing top-performing organizations.

A formal coaching and mentoring process will help the current owners prepare the next owners and leaders to keep the business going strong as one owner moves aside and another takes the helm. Coaching provides insight and focus so that a person can more efficiently move forward to where he or she wants to be. A mentor teaches skills based on the mentor's personal experience to one who is (usually) less experienced and often in the same profession. The coaching process does not rely on the coach's experience or being in the same profession. Instead, the coach guides the client on a unique path in order to help the client meet his/her goals and objectives.

Ultimately, a successful exit from the business will preserve the value the owner has built over the years. It will also help to retain the best talent who one day may be owners and continue to grow the business for generations to come. After all, 68 percent of owners answering the survey consider the business to be a family business. Fifty-three percent of those businesses have been in the family for two generations or more. Building a legacy and building wealth for the owners and those who work for the company require a long-term view; management succession and plans for ownership transfer are an essential part of continuing success for the company.

Ownership transfer is best viewed not as just a one-time event, but as a continuous growth strategy at the heart of the business. Whether ownership transfer is a sale of the business to a third party or the transfer to family and employees, for future success and continuity of the business, all companies need to work on bringing up the next generation.

In preparing and executing an exit strategy, it becomes clear that the owners of the company are not just working in the company; they are working on the company. The goal is for owners to leave a body of work or an ongoing and healthy business to the new owners or the next generation, thereby realizing all of their own hard work and preserving the wealth they have built up in their company over many years.

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