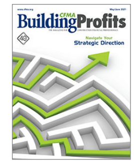


BY DR. PERRY DANESHGARI & DR. HEATHER MOORE

EXECUTIVE SEARCH: *Ensuring a Correct Match for Your Company's Future*

Every company that weathers the test of time will eventually require a replacement, succession, or enhancement to the founder, executive, leader, top-level manager, or the career path for top performers. Before getting to the point of promoting from within vs. hiring from outside, which both have risks and rewards, there are more steps and strategies needed to assure the smooth continuation of the company's ecosystem.

This article will discuss steps to help avoid leaving results – and the future of the company – to chance. It will also explore how to focus an executive search on the type of person who will fit the organization's culture, what to look for in a candidate, and how to use the results to plan for the company's succession.

Strategic Plan Implementation

A company's current and future executive, managerial, and operational human resources (HR) structure must be part of its strategic plans for growth, stability, and sustainability.

High turnover at any level of the company can have devastating results in organizational performance and outcome. However, low turnaround can be just as problematic if overall strategic plans aren't being met with the current resources.

One important topic that cannot be neglected is the measurement of growth and stability. In addition to measuring growth by financial performance, organizational growth and stability can and should be measured by such factors as:

- Positive work environment
- Stable workforce
- Full engagement

Favorable changes at any level cause positive and negative ripple effects in the company's performance. An exchange at the highest levels of the organization can be as difficult to manage as trying to combine two company cultures after a merger and acquisition (M&A).

Assessing the Company's Internal Environment: What Does "Success"ion Look Like?

In order to accept an internal or external replacement or enhancement, a company's executive search should start with an internal assessment of its current structure and capabilities. A true assessment of the organization's environment focuses the search on the type of person who will fit the company's culture.

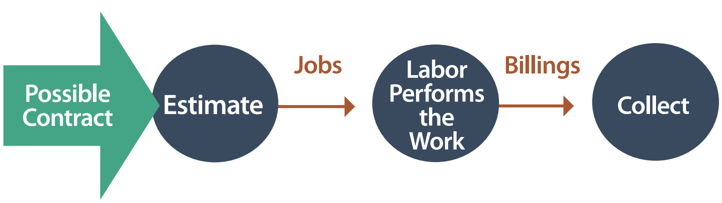
Do owners want the company to succeed beyond them? Do stockholders want to retire with enough money to enjoy life? Should the company be or become independent of its founders or owners for survivability?

In most businesses and organizations, founders and owners are part of the glue that holds the company together. Separation is a significant emotional event, so an assessment of the current state of the business and the founders or owners will help identify the appropriate candidates for the job.

Many companies use headhunters or HR firms for executive searches or rely on their banks for M&A valuations; however, it is likely that those external parties will only look at it from their own center of expertise. An independent assessment should start with an understanding of the past successes, ownership, and operational models that have assured those successes and also provide a look ahead to what the business needs to survive and thrive in any future conditions.

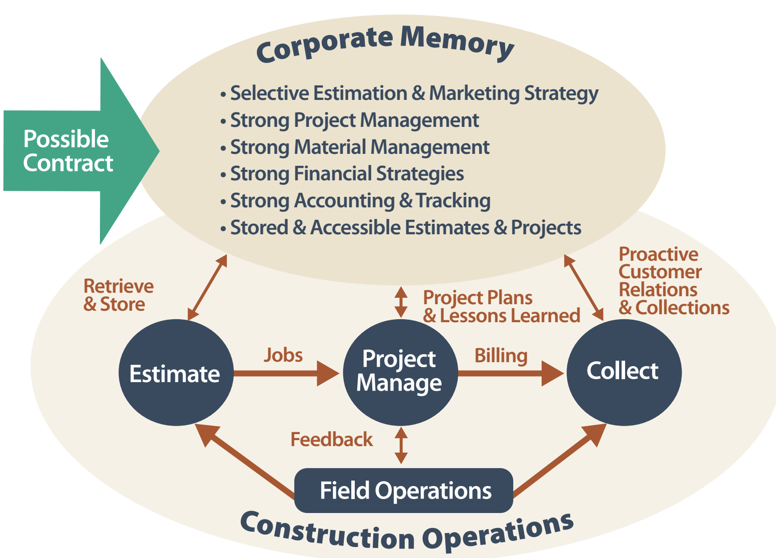
To begin the assessment, the company's structure and operational model should be identified as traditional, transitional, or professional.

Exhibit 1: **Traditional Way of Managing Projects**



Source: Daneshgari, Dr. Perry. *Optimal Operational Model for The Electrical Contractor*. ELECTRI International. 2002.

Exhibit 2: **Professional Operational Model**



Source: Daneshgari, Dr. Perry. *Optimal Operational Model for The Electrical Contractor*. ELECTRI International. 2002.

Traditional

The traditional model of operation (Exhibit 1) relies on the individual technical knowledge of the company's leader. The size of the company does not matter, and the projects are either hard bid or negotiated and pass through a main hub (an employee, typically the company owner or their designated righthand). The institutional memory of the company resides mainly inside one person's head. This is a very successful model for a construction-skilled tradesperson who wants to start a business and enjoy a very comfortable living.

The value transferred in this type of operation is mainly technical; business processes, waste reduction, and productivity improvements are not major concerns, and individual mavericks (project managers (PMs), general foremen, estimators, etc., who help owners stay profitable) are financially rewarded for their hard work.

Transitional

Transitional companies are in the process of changing from traditional to professional due to attrition or the conscious decision of the owners. These companies are usually in a growth mode and trying to work on their infrastructure and processes, but often lack the expertise to do so. The past successes and momentum can become an inertia, preventing the business from moving to the professional level. Silver-bullet solutions such as IT solutions, hiring more people, or adding floorspace are often sought.

To sustain growth without having the professional model in place, transitional companies often pursue risky work; they get into a tailspin of relying on "good guys" who are no longer the owner/executives and becoming "islands of excellence," as they create their own shadow governments within the company. This model can survive for a period of time, but not forever.

Professional

The business-oriented professional operational model (Exhibit 2) is the most successful of the three. It has the capabilities of increased profits and productivity, as well as a way to expand and sustain growth without relying on individual people and experiences. The operational systems are very visible and well understood, with rigorous project management tracking that is standardized and visible at all levels. The company is responsible for project management, and the system design principles are followed.

Project management is not just for time-tracking purposes, but also takes into account:

- Information and communication
- Procurement
- HR
- Risk
- Scope
- Quality
- Time
- Cost
- Integration

In other words, if your PMs spend more than half of their time in meetings and responding to e-mails, then a consistent process of project management does not exist.

Professional companies rely on strategic and marketing plans, field feedback, seamless material handling and tracking, increased estimation accuracy, project management, and business financial visibility.

Increased quality and productivity of operations can be achieved much easier with this operational model since it allows the actual costs of project and company operations to be known. Knowing the job and coded costs helps professional companies maneuver much faster during negotiations. The comparison of estimated to actual cost could be used to set operational goals and achieve Six Sigma operations. A corporate budget is in place in these companies, with regular reviews and dynamic updates to understand and manage the business.

Ownership

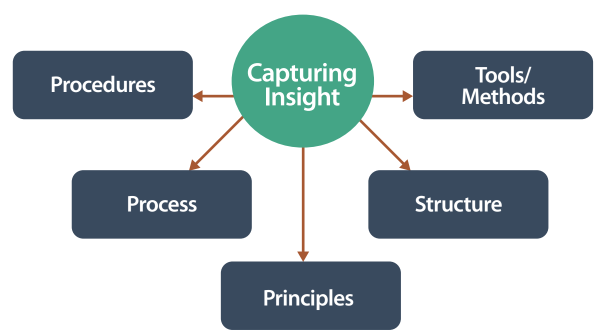
In addition to the operational models, the styles of ownership also have a major impact on the selection strategy of the executive-level new hire. Ownership styles can be divided into four categories:

1) *Private ownership:* original owner or descendants who maintain full ownership

2) *Roll-ups:* some publicly owned and some privately owned, however, with multiple stockholders

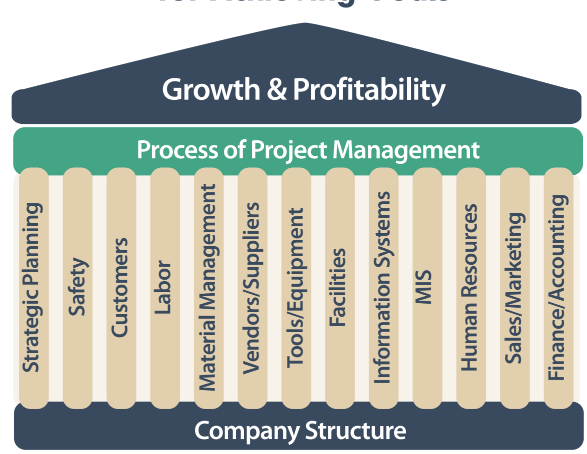
3) *Facilitative ownership:* construction companies owned by utility, manufacturing, and service-oriented organizations

Exhibit 3: **Five Ways to Capture Insight**



Source: Daneshgari, Dr. Perry. *Optimal Operational Model for The Electrical Contractor*. ELECTRI International. 2002.

Exhibit 4: **Enterprise Model for Achieving Goals**



Source: Daneshgari, Dr. Perry. *Optimal Operational Model for The Electrical Contractor*. ELECTRI International. 2002.

4) *Collective ownership:* management- or employee-owned construction companies, such as employee stock ownership plans (ESOPs)

There does not seem to be any specific trend in the correlation between the ownership type and operational model.[1] Construction companies could operate under any of the three prevailing operational models and have any of the four ownership structures.

Private Ownership

Newcomers to private ownership must be able to operate with the owner-operator's understanding of the business, which may or may not comply with GAAP (i.e., newcomers must understand that the owner-operators will and can mix and match their personal and company's finances within the legal environment, which may not match GAAP). Private ownerships that grow above $15 million for subcontractors and $150 million for GCs in annual revenue cannot survive the organizational and market challenges of fast-moving customers.

A professional organizational model as well as visible processes are needed to help the company grow. At this level of sales, a serious survivability decision should be made by the owners to either grow or shrink the company. This level of sales creates a very unstable situation in the operations of the company due to its size and requirements for information.

If the owners decide to operate with the traditional operational model, then they need to take the company back to less than $10 million and $100 million in annual revenue for subcontractors and GCs, respectively; however, this move

Exhibit 5: **Guidelines Based on Assessment Results**

Operational Model	Assessment Evaluation Results	Succession Model Considerations
Traditional	• Poor financial health or financials "healthy enough" to take care of current ownership retirement. • No one currently in the company is available/interested in taking over ownership or executive management responsibilities.	Close the company
	• Individuals in the company are able, willing, and capable to succeed current ownership/executive structure. • Average, or better, financial health. • Unique market niche/competitive advantage to sustain or grow market share.	Pass on to heir apparent
	• No one currently in the company is available/interested in taking over ownership or executive management responsibilities. • Financially healthy or unique market niche/position to interest a seller.	Sell the company
Transitional	• Company is developing policies and processes with a strong potential executive or executive committee that is or will be solidly in place before current ownership wants to exit.	Build infrastructure and future leaders
	• Multiple owners (currently), and no single or group that can buy out current owners. • Company is in the early transitional stage; strong processes and controls not in place yet. • Current company owners want to exit quicker than future leaders will be ready to take over, financially or managerially.	ESOP
Professional	• Financially healthy/strong. • Have individual(s) in the company able, willing, and capable to succeed current ownership/executive structure.	Build or find future leaders
	• Financial scenarios for merging/acquisition. • Nobody currently in the company available/interested in taking over ownership or executive management responsibilities.	M&A

will not be easy. Most of the available jobs are increasing in size, which introduces major challenges for a company that wants to stay small.

A clear decision of which path to go will help the hiring direction for the individual who can play a role in the future of the company.

Roll-Ups

Roll-ups have enjoyed a variable growth in the past few decades, but the productivity and profitability of organizations have been variable.

One major observation that can explain this variation is the operational model of the member companies. During the initial stages of roll-up formation, the advantages and processes of professional members do not flow into the entire organization. Management of the roll-ups displays more concerns about the financial performance than productivity issues. The burden of the new financial structure reduces the overall optimization of the roll-up organization.

Vertical integration of the organization seems to be the second reason for the slowdown of the roll-up companies' productivity. Roll-ups that have been able to master the transfer of technology, processes, and information across their entire member community enjoy much better stock prices and profits.

Facilitative Ownership

After the deregulation of the power generation and distribution companies in the late 1990s, many utility companies under the facilitative ownership structure entered the construction industry. Many of the original M&A attempts have fallen apart due to the fundamental differences between the financial operation models of the utility and construction companies. New hires of those who still exist must be able to adopt to the origin of the company's requirements.

Collective Ownership

Due to the required controls put in place by the government, most of these collective ownership types (management- or employee-owned construction companies such as ESOPs) are better suited to be joined by company executives and a more professional workforce.

Training

Overall, professionally run companies are in a much better position to adapt their operations with the constantly changing markets and customer demands. The designed processes in these companies are not standard practice for the workforce available in the construction industry, and they need to be updated and continually improved, which poses an additional challenge.

Training and retraining needs to become part of the company's operational life cycle. Availability of PMs, superintendents, and foremen who understand the principles of scientific project management is very limited in the current resource pool of this industry. The managers and owners of these companies must have an outside perspective to help them streamline their processes of project management and help train and educate their workforce, leaving two available alternatives:

1) Select and train from within the industry and educate them about the principles of scientific project management.
2) Search in other industries for resources already familiar with the principles of scientific project management and educate them about construction project operations and management.

Both of these require a well-established process of project management and time to educate.

The assessment of the company will be necessary for hiring at any level. Exhibit 3 shows the insight needed to understand the company's infrastructure and the required resources for its management. Exhibit 4 shows a sample organization's functional divide, which will require any new hire to understand and work within.

Evaluating the Fit

Following the business assessment in terms of ownership and operation structure, the company's owners can make a choice on which pathway will lead to "success"ion. Exhibit 5 provides some guidelines for evaluating those choices depending on the results of the assessment.

Our experience in performing assessments and supporting hundreds of companies through business succession has proven that the plan must be fact-based, pragmatic, and started early. Time is the unignorable variable in succession plans. People age and conditions change – either in the market or in personnel – so an at-the-ready plan for succession is required at the operational, managerial, executive, and ownership levels.

Company-level succession, including M&A or executive search, typically takes 3-5 years from initiation to completion and requires long-term planning and constant attention. Unfortunately, it is often forced without a plan, including short-circuited or lack of decisions that leave the future of the company in question.

Executing the Plan

Once the decision is made for the succession plan, finding the "right fit" is the next step. Exhibit 6 outlines best practices for executing a succession plan for companies of all sizes and operational models.

Conclusion

Assessing the company's structure, culture, and financial operational model is a must prior to any search for executive, managerial, or specialty positions.

Assess the organization to:

- Understand the company's philosophy of operations – what good means and what bad means.

Exhibit 6: **Succession Plan Best Practices**

1) Determine the search criteria.

- The current owners and executives need to identify the ideal state and outcomes of the search and selection process, such as:
  - Hire a new president by the end of the year.
  - Expand the executive team by promoting or hiring two new vice presidents.
  - Retirement for current executive(s).
  - Increased liquidity for current owners.

  It is helpful to draw the structural model (financially or organizationally) of what the results will look like.
- The search criteria should be set by the owners/board of directors. Finding a replacement for the company's executive level (whether a person or another company) starts with identifying the current philosophy of operation ("what good means" in the company). The candidates will be evaluated for alignment with this criteria, as well as personality fitness for the organization's structure and culture.
- Input outside of the ownership group can be valuable but not equally weighted. It may not be feasible to ask for their input depending on the level of disclosure of the overall search process.

2) Conduct the search and selection.

- Transform the criteria and objectives into a job description. The pillars in Exhibit 4 should be used as a backbone to the level of responsibility that will transfer to the new executive or company.
- The search can be completely outsourced (typically faster and more effective) or performed in-house. Interested and aligned candidates should be evaluated against the criteria:
  - In the case of an executive search, this could include job description and vetted through HR processes, such as document review (e.g., application, resume, transcripts), interviews, background check, etc.
  - In the case of a full business transfer (e.g., buying/selling, M&A), due diligence is required for financial, operational, and HR alignment.
- Candidates should be narrowed down based on fitness between both parties.

3) Onboarding and ensuring success.

- The final candidate selection can be a delicate process, due to likely untethering from the candidate's current environment, requiring high sensitivity and confidentiality around communication.
- Onboarding should incorporate significant time with the current executive team to clarify topics such as:
  - Span of control.
  - Learning the operational rhythm.
  - Setting goals and a strategy for the business.
  - Discovery and learning both ways; getting to know the new leadership personally, and the new leaders learning and understanding the company's history and opportunities for the future.
- The excitement of a great candidate dwindles over time; as the daily grind takes over, it is important to go back to the initial objectives of the transition to measure progress or lack thereof.

- Create a benchmark.
- Seek people who will fit the company, position, and operational philosophy.
- Establish a dating period, which should include onboarding, feedback, and litmus testing.
- Repeat the cycle and never become stagnant.

These steps are of utmost importance for the longevity and success of not only the organization but also the founders, owners, employees, customers, and community. ■

Endnote

1. Daneshgari, Dr. Perry. "Optimal Operational Model for Electrical Contractors: Implementing Principles Learned from Other Industries to Increase Profitability in Electrical Construction." 2000.

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