

Family-Owned Businesses and Long Term Incentive Programs (LTIPs)

by Bruce Walton



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When a family-owned business needs to recruit a non-family CEO or COO, a well-structured Long Term Incentive Program (LTIP) is essential in attracting an outstanding candidate. However, LTIPs can make some family business owners uncomfortable. Few families want to give up true ownership, even when they realize that an agreement is important for the health of the business. Naturally, the non-family CEO will want to share in the value they create through an incentive program that enables them to feel, act and think like an owner.

Fortunately, there are ways to structure an LTIP that preserve ownership and make the program a win-win situation for both owners and newly hired executives. The dominant LTIP vehicle among private firms is a cash-based performance incentive which contributes the earned award to a deferred pay account with vesting conditions.

Here are a few guidelines that we have found useful in recruiting.

About Our Firm

Battalia Winston has been partnering with companies to find and retain top executives for more than 50 years. As one of the nation's largest woman-owned executive search firms, Battalia Winston conducts searches for key executive, senior leadership and management positions for companies across industries and for clients that range from start-ups to Fortune 100 global enterprises, always keeping ahead of the market and always providing a diverse and inclusive slate of candidates for every search.

Work with Experts

Creating an LTIP is not something that should be handled in-house. It takes a professional compensation consultant to translate the family's value system and objectives into an appropriate LTIP architecture, and then to fit the program to the requirements of the finalist candidate. There is always a bit of negotiating that goes on, first within the board and family, then with the finalist candidate. The process usually requires several steps/iterations over a couple of months and needs to be memorialized by a lawyer. The whole process might cost \$12-15,000.

Because the process can take some time, we strongly encourage clients to start developing the LTIP at the beginning of the CEO or COO search. It is too late to start the process once the final candidate has been identified. If there is an LTIP already in place, it may need to be refreshed to match the current marketplace. Again, this process should be started early, since even minor modifications can take a couple of months.

Start with the Premise that the Program Should Pay Out Only When Value is Created

The architecture of the LTIP should be based on sharing in the value that the CEO helps create. Frequently, the way to measure that value is EBIT or EBITDA, starting with a reference value before the new CEO joins, and allocating a percentage of the value created to a pool that is shared by the top three to five members of the management team. This incentivizes the CEO and provides some tools to attract and retain top talent.

In some programs, a third party assesses the company's value each year, providing an independent view of the payout, but this method has a yearly expense attached to it. One recent client simply assigned a percentage of the EBITDA growth over time to a pool.

Our Family Business Expertise

As their leadership needs evolve, family-owned businesses must attract and retain executives who are committed to growing the company's legacy. To find the right individuals, family-owned businesses need recruiting partners who understand the nuances of attracting top talent during times of transition, including the importance of proactive succession planning, long-term incentive plans and cultural fit.

Battalia Winston's family-owned business division is led by recruiting experts with more than 30 years of experience. We work directly with company leadership as well as outside advisors (compensation consultants, private equity sponsors, etc.). Our experts understand governance as it applies to family-owned businesses and have placed more than 125 candidates in family businesses in the last decade.

We study each industry and continually expand our network of talent, as well as our network of business consultants who support family-owned businesses, including board members, consultants and attorneys. We work closely with our clients to position their firms as employers of choice in their target landscape and actively cultivate relationships between existing executives and high-potential candidates. In addition to identifying top talent, we are closely involved in the interview stage, negotiations, the development of long-term incentive plans, post-hire consulting and onboarding.

Keep it Simple

Some of my clients have tried to incent behavior with overly complex metrics, to the point that one candidate likened the proposed LTIP to the tax code. He asked, “What are you really trying to get me to do?” The company did not have a good answer. Also, it was very hard for the candidate to assess what was achievable before he moved under the tent with access to all the needed information. Ultimately, the company decided to simply base the incentive on company value growth based on their formal company annual valuation program.

LTIP payouts should be made in a reasonable timeframe, balancing the needs of the candidate with the need to protect the company from a large cash flow demand. Remember, if the CEO makes a lot of money, the family has made even more!

Of course, the value of the LTIP should be subject to a vesting schedule of a reasonable timeframe, perhaps three to five years. I had one client that wanted the monies held within the company until the CEO turned 65. That was unacceptable to the 43-year-old finalist candidate. He proved he was the right candidate by saying, “I want to be able to take some of my (earned) money out on a regular vesting schedule, invest it and then lose it, just like everyone else.” He turned the company profitable within nine months and doubled the value of their minority ESOP within three years.

While a recruiter can provide a sense of whether a program is comparable with others in the market, it takes a compensation consultant who deals with private companies to “turn the dials” and match a program to a specific situation. Recruiters familiar with family-owned businesses are accustomed to collaborating in this way and working with various other consultancies supporting the family-owned business community.



Bruce Walton has more than 30 years of executive search experience and primarily recruits CEOs and their direct reports to mid-cap industrial, technology and family-owned businesses. He is co-leader of the Family-Owned Business Practice at Battalia Winston and has been a member of the Family Firm Institute (FFI) for more than a decade.

Before joining Battalia Winston, Bruce was a Managing Director at Conley & Company, a boutique executive search firm in Boston. Prior to that, he was a Partner with Heidrick & Struggles and a Recruiter at Russell Reynolds Associates. Before entering the search industry, Bruce spent seven years in sales and marketing roles with IBM following a pre-MBA position as Dealer Sales Manager for Hood Sailmakers.

A former Deck Officer in the U.S. Navy, Bruce has a bachelor's degree in Sociology from Princeton University and an M.B.A. from Harvard Business School. He is a past-president of the Harvard Business School Association of Boston.

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