

Attracting, Retaining, and Retiring Your Top Talent



CLAAconnect.com

Jan Kruchoski
Principal
CliftonLarsonAllen Search



Executive Compensation Solutions
Creating Value Through Innovation

Guy Collins
Principal
Executive Compensation Solutions

Housekeeping

- If you are experiencing technical difficulties, please dial: **800-263-6317.**
- **Q&A session will be held at the end of the presentation.**
 - Your questions can be submitted via the **Questions Function at any time during the presentation.**
- The **PowerPoint presentation**, as well as the **webinar recording**, will be sent to you within the next 10 business days.
- Please complete our online survey.



About CliftonLarsonAllen

- A professional services firm with three distinct business lines
 - Accounting and Consulting
 - Outsourcing
 - Wealth Advisory
- 3,600 employees
- Offices coast to coast



About Executive Compensation Solutions (ECS)

- Design, implementation, and administration of executive compensation and benefit plans
- Exclusive focus on the credit union marketplace
- Over 40 years of experience
- Dedicated ECS team for each client
- Publish The Survey complimentary to credit unions, since 2004



Speaker Introductions

- **Jan Kruchoski**

- Principal, CliftonLarsonAllen Search
- 30+ years executive search experience across a broad range of industries in both the public and private sector
- Specializes in partnering with boards of directors/trustees, owners and senior management to provide succession planning and strategic executive search services

- **Guy Collins**

- Principal, Executive Compensation Solutions
- 15 years experience with firms ranging from 50 employees to over 25,000 employees
- Expertise in qualified plans, non-qualified plans, life and disability



Learning Objectives

- At the end of this session, you will be able to:
 - Utilize methods to recognize and reward the achievements and contributions of key executives, and understand how these help with staff retention until retirement
 - Develop a strategic succession planning process that is directly related to your organization's long-term effectiveness and success
 - Learn how to evaluate which type of search firm to partner with that will serve as an ambassador of your unique search opportunity



Agenda

Executive Selection Process

How does our credit union find the right executive?

Plan Structure

How does our credit union retain that executive?

Succession Planning

How does our credit union prepare if our executive leaves?





CEO Selection Process

How does our credit union find the right executive?



“I am convinced that nothing we do is more important than hiring and developing people. At the end of the day you bet on people, not on strategies.”

Lawrence Bossidy, Former COO of GE and author

“Development can help great people be even better—but if I had a dollar to spend, I’d spend 70 cents getting the right person in the door.”

Paul Russell, Director, Leadership and Development, Google

“If I were running a company today, I would have one priority above all others: to acquire as many of the best people as I could ...[because] the single biggest constraint on the success of my organization is the ability to get and to hang on to enough of the right people.”

Jim Collins, Author of Good to Great



Key Components of a CEO Selection Plan

- Role of Board, Succession/Search Committee and CEO
- Communication Plan
- Position profile and critical success factors based on your strategic plan
- Candidate Interview, Due-Diligence and Selection Process
- 3-5 measurable first year goals/objectives
- Comprehensive and Competitive Compensation and Benefits plan is in place to attract the best talent
- Transition/Onboarding Plan



Role of the Board

- Develop position profile and critical success factors
- Establish comprehensive compensation and benefit package
- Determine internal or external search process
- Set realistic search timeline
- Appoint a search committee
- Interview final candidates presented by search committee
- Social event with finalists
- Draft contract
- Extend offer to finalist
- Execute communication plan
- Execute transition/onboarding plan



Role of the Search Committee

- Develop slate of candidates
 - Internal search: source candidates through Board network, advertising/postings, social media, credit union associations, CEO networks, etc.
 - External search: meet with search firm to establish profile of organizations to recruit from
- Interview and evaluate candidates for board consideration
 - Ensure your interview process includes questions that align with your strategic plan, position profile/critical success factors, mission, culture, etc.
 - Conduct candidate due-diligence to narrow slate to two finalists to present to the board



Role of the CEO

- Meet with final candidates to provide insight on the Credit Union and answer any questions
- Develop transition/onboarding plan with the Board
- Ensure new CEO is positioned for success with internal and external constituents
- In conjunction with the new CEO, update the Board on the progress of the transition
- Notify the board of the completion of their role in the transition/onboarding process



Communication Plan

- CEO Communicates Succession to Board NOT employees
- The Board of Directors execute the Planned and Unplanned Succession Communication Plan
 - Establishes communications timeline
 - Develops all communication vehicles
 - Announces succession plan to internal staff, members and other key constituents, provides updates, etc.
 - Announces CEO selection and hire details to internal staff, members, other key constituents and community



Key Components of Position Profile

- Position Profiles are high-level and broad in scope
- Typically they include 3-4 areas of focus:
 - Responsibility
 - Goals
 - Expectations



Key Components of Critical Success Factors

Professional Competencies Examples

- Strategic Leadership
- Tactical Business Planning and Execution
- Growth/Expansion
- Process Improvement
- Change Management
- Team Leadership and Staff Development
- Etc.

Culture and Chemistry Alignment

- Core Values
- Communication
- Leadership Style
- Personal Characteristics
- Etc.



Candidate Due Diligence

Reference Check

- Signed Release
- Conduct PRIOR to narrowing down to your final candidate
- 360° (Supervisor, Peer and Direct-Report)
- Align Reference Questions with your Critical Success Factors
- Contact your network to conduct confidential indirect reference, if possible
- Be Thorough and Complete

Background Check

- Signed Release
- Options include, but are not limited to:
 - Social Security Trace
 - Credit Report
 - County/National/Federal Checks
 - DMV
 - Professional Licensing
 - Etc.
- Watch for “red flags!”



Internal vs. External Search Process

The Board should consider:

- Resources
 - Board and Credit Union
- Sourcing and Recruiting Strategy
 - Depth and scope of network
 - Access to passive/hidden candidate market
- Succession Timeline
- Confidentiality
 - Unplanned and Planned Succession – when should the market know?



Internal Search

A search conducted by the Board of Directors

Pros

- You know your Credit Union BEST!
- Your Credit Union's Brand and reputation will produce qualified candidates (internal and/or external)
- The Board has time and expertise to complete a comprehensive search
- You have access to a network that will produce appropriate candidates
- Costs

Cons

- Your advertising/posting/network may not produce appropriate candidates
- You are dependant on the active candidate pool (7-10% of the market)
- Odds are the majority of board members have not been through a CEO selection process
- The Board does not have time or expertise to complete a comprehensive search
- Less information available on candidates
- Direct and Indirect costs associated with search process taking too long or cost of bad hire (no guarantee)



External Search

A search conducted by a search firm

Pros

- Your time is valuable!
- Objective Third Party Perspective
- Access to the hidden/passive candidate market (*The Best Candidates are Working for Someone Else*)
- Critical with confidential searches
- Discrete Sourcing from your Competitors
- Recruiting is what they do 100% of the time!
- Value – Added Services in addition to developing a slate of candidates
- Guarantee

Cons

- You know your Credit Union Best!
- Start-up time for search firm to become familiar with current operating system and culture
- Loss of Control
- Costs



Your Selection Process

Do...

- Utilize the Power of your Credit Union's Brand
- Be knowledgeable of vital industry and market trends
- Conduct a thorough search process that aligns with your Strategic Plan
- Craft your Position Profile to Reflect your Mission and Culture
- Develop Critical Success Factors to Ensure Success
- Source, Interview and Select the Best!
- Validate Internal candidates against external candidates
- Conduct Substantive candidate Due-Diligence
- Extend your Best Offer to Ensure Acceptance

Don't...

- Forget... your interview and selection process is a reflection of your Credit Union and the Board
- Execute before Planning
- "Fall in love" with a candidate that doesn't meet your critical success factors
- Rely on "what's worked in the past"
- Ignore your "gut" (AFTER you have completed the interview process, due-diligence, etc.)..."gut" matters!
- Validate then trust!
- Shortcut the process



Important Considerations When Selecting a Search Firm Partner

- Value-add services included in the executive search engagement
- Process and timeline alignment
- Limitations (conflicts, off-limits, capacity, etc.)
- Credibility, chemistry and confidence with your search team to perform as your relationship partner in the search
- Industry knowledge, expertise and network
- Communication plan
- Candidate due diligence process
- Details of fees, expenses, etc.
- Guarantee
- Onboarding support



Costs of a Bad Hire

Direct Costs

- Cash Compensation
- Benefits
- Recruiting Costs
- Possible Legal Fees
- Relocation Expenses
- Unemployment Pay
- Advertising Costs, if internal search
- Search fee, if external search

Indirect Costs

- Board time spent conducting an additional search
- Potential damage to member and/or community relationships
- Second Round candidate expenses
- Damage to Credit Union brand
- Lost productivity
- Board time spent onboarding/transitioning replacement
- Impact on employee morale



Reasons People Accept Your Offer

- Belief in your Mission and Values
- Connection with Credit Union's Culture and People
- Opportunities for Challenge and Development
- Perceived Stability and Sustainability of your Credit Union
- Work/Life Balance
- Better Pay and Benefits
- Elevation in career progression





Plan Structure

How does our credit union retain our executive?



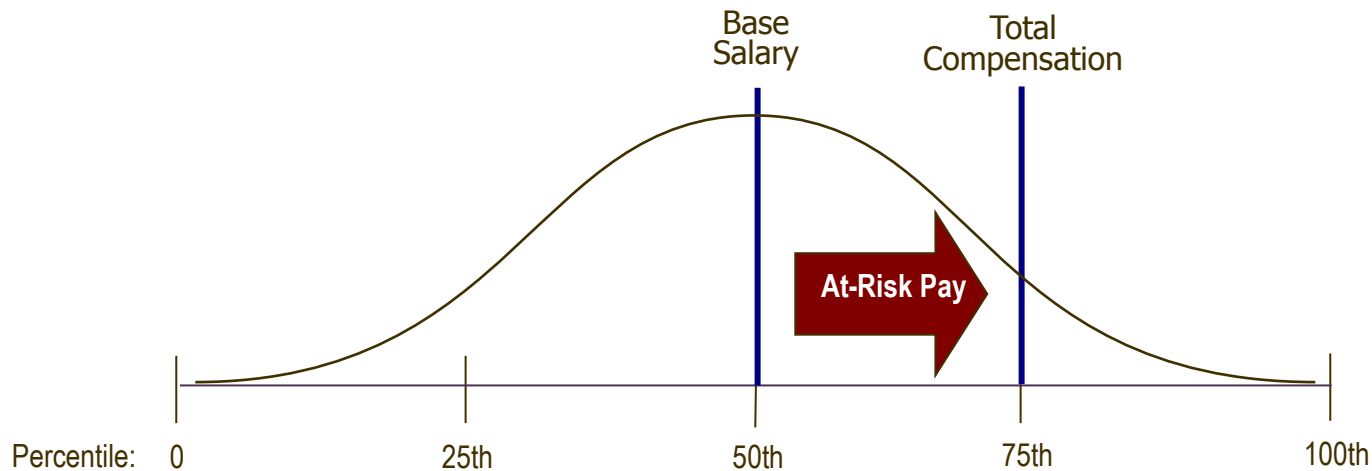
Compensation Philosophy

- Why start a project with the development of a written compensation philosophy, and what purpose does it serve?
 - Executive compensation philosophy is the foundation for all compensation decisions
 - ◇ Provides guidepost for future executive compensation decisions
 - ◇ Allows for future adjustments in response to changes in peer group comparators, individual personnel circumstances, modifications to credit union goals or strategy, or any other unique situations that may arise
 - ◇ Aligns compensation elements with strategic goals of the credit union
 - ◇ Ensures compensation strategy is articulated and understood by both the board and the executives
 - ◇ Places compensation decisions within the purview of the board
 - Addresses all components of total compensation and benefits package
 - ◇ Annual base salary
 - ◇ Annual bonus/incentive
 - ◇ Perquisites
 - ◇ Qualified plans
 - ◇ Longer term incentives



Cash Compensation – Short Term Incentives/Bonuses

- Total cash compensation aligns with board-established executive compensation philosophy
- Target annual incentive/bonus is difference between base salary and total compensation
- Incentive/bonus should be tied to specific performance metrics that are established and transparent in advance of performance period
 - Average performance = average pay
 - Performance at higher level = pay at higher level



Longer Term Incentives

- What are considerations regarding longer term incentives?
 - All compensation elements – base, bonus and longer term – must be considered in structuring a total compensation package
 - Longer term incentives must create the right reward and retention dynamic, with benefits delivered at the right time
 - ◇ Periodic payments during working lifetime
 - Can serve as reward tool; benefits are viewed as attainable; creates stronger retention dynamic
 - ◇ Supplemental income at retirement
 - Can serve as final retention “carrot”
 - ◇ Executives should be able to achieve a certain level of benefit delivery without shouldering undo risk or leverage
 - Financial prudence
 - ◇ Implications to financials
 - ◇ Ability to mitigate costs
 - Effective funding vehicle
 - Recovery of costs over life of plan



Longer Term Incentives

- What trends are we seeing in executive benefit plan designs?

	<u>Global Statistics</u>
Offer executive benefit plan	52%
<hr/>	
<i>Among those that offer a plan</i>	
Offer 457(b)	65%
Offer 457(f)	56%
Offer defined benefit plan	63%
Offer defined contribution plan	28%
Offer other type of plan	9%
Offer CASD	9%

Source: 2013 ECS Survey



Longer Term Incentives

- What is a potential win-win option to meet the goals of both the credit union and the executives?
 - Combination of guaranteed and performance-based plans
 - ◇ Supplemental retirement plan with defined benefit structure
 - Guaranteed replacement of pre-retirement income up to a targeted amount
 - Target a percent of final salary, offset by other credit union benefits (e.g. 40%)
 - Provides retention tool and retirement income
 - No benefit paid for voluntary termination prior to stated payment age
 - ◇ Long term incentive program with defined contribution structure
 - Performance-based
 - Maximum annual contribution to target a percent of final salary (e.g. 20 – 30%)
 - Annual contributions earned determined by financial and organizational performance
 - Partial distributions during working lifetime serve as reward (e.g. every 5 years)
 - Final distribution at stated final payment age serve as retention and reward



Funding Credit Union Employee Benefits

- Why fund?
 - Positively impact financial statement
 - ◇ Asset gains to offset/mitigate benefit expense charges
 - ◇ Returns greater than average returns in “other asset” category
 - Provide for the recovery of:
 - ◇ Outlay for benefits
 - ◇ Outlay for funding
 - ◇ Time value of funds used for benefits and funding (“cost-of-money”)
 - Diversify the credit union portfolio
 - Only way to make members whole





CEO Succession Plan

How does our credit union prepare if our executive leaves?



Purpose

Succession Planning positions your credit union for a smooth leadership transition by providing a framework for moving forward when a vacancy occurs.



Process

- Board driven succession planning in partnership with CEO
- Form a succession committee to drive process
- Identify industry trends
- Assess current situation of your credit union
- Define CEO role, responsibilities and qualifications
- Integrate strategic plan goals and objectives
- Identify internal candidates for both unplanned and planned roles and ensure they are prepared for transition when needed
- Review and revise plan as part of your strategic planning updates



Key Components

- CEO profile and critical success factors based on your credit union's strategic plan
- Industry trends and credit union challenges and opportunities
- Timeline for review and revision
- Communication Plan
- Unplanned and Planned transition strategies
- Selection process (Internal and External)
- Transition/Onboarding plan



Unplanned Succession

Your Unplanned Succession Strategy should include:

- Specific and detailed “lights on” plan to keep the credit union running smoothly
- Identify which member(s) of the executive team to serve as Interim CEO
- Is the board, or members of the board, prepared to step-in and perform the role of Interim CEO?
- Will you need to plan for an external Interim CEO?



Planned Succession

Your Planned Succession Strategy should include:

- Board, succession committee and CEO roles
- Transition timeline
- Documentation of short and long-term opportunities and challenges
- Clearly defined CEO profile and critical success factors
- Knowledge of potential internal candidate(s)
- Research and decision to conduct an internal or external search
- Recruiting, interviewing and selection process
- Transition/Onboarding process
- Review and revise recommendations
- Internal and External Communication Plan



Transition/Onboarding Plan

- Integration is Critical
- Key Components
- The Board's Role
- Staff's Role
- The New CEO's Role
- Investment=Mutual Outcome



Benefits of Succession Planning

- Ensures strategic goals and objectives are executed during times of transition
- Reinforces the board's confidence in the future of the Credit Union
- Communicates the complexity of leadership transition and the board's commitment to a formal process that will result in the selection of the best qualified candidate (CEO)
- Sends a positive message to employees confirming commitment to their professional development
- Satisfies regulator's requirement for a clear, documented process





Questions?



Guy Collins

Principal, Executive Compensation Solutions

gcollins@ecs-m.com

626-914-2333



Jan Kruchoski

Managing Principal, CLA Executive Search and

Firm-Wide Community and Civic Involvement

jan.kruchoski@claconnect.com

612-376-4655

