

Businesses, Know Thyself



Virginia Society of
Certified Public
Accountants

BIC Speakers Stress Corporate Values, Culture

The VSCPA's Business & Industry Conference (BIC) remained at the Williamsburg Lodge and continued its run of success, with 240 corporate finance professionals attending in person and 32 joining the simulcast. Attendees heard important lessons on change management, strategic planning, harassment and more, in addition to firsthand knowledge on transitioning a family business from Richmond food retailers Ukrop's. Thanks to all who attended, and don't forget to join us for the 2019 conference May 20–21 in Williamsburg!

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Leading Through Change

Disruption is the new normal, and change is inevitable, at least for technology-driven industries like accounting. That brings winners and losers — organizations and entire sectors are going to be left behind based on the viability of their offerings and how they react to change. The former is difficult (although not impossible) to shift, but the latter presents an opportunity for strong leaders.

The most important leadership attributes and actions in times of rapid change were the topic of Dr. Tom Epperson's keynote session at BIC, "Leading Through Change." He discussed how crucial it is for business leaders to react properly in making and reacting to changes.

"Change always starts with us," said Epperson, president of the Richmond-based InnerWill Leadership Institute, a national 501(c)3 nonprofit committed to transforming companies and the people behind them through Values-Based Leadership (VBL). "You think about a leader in an organization and the first step is always about looking in the mirror and seeing ourselves clearly. What are our strengths, what are our challenges, what are we doing well, what are we modeling?"



Tom Epperson

Steps of Learning

Awareness	Employee knows that change is coming
Understanding	Employee is familiar with basic tenets of change
Acceptance	Employee is mentally ready for the change
Application	Employee is figuring out how to implement change
Integration	Change is established part of employee's work

Driving effective and sustainable change within organizations, starts with changing our own behaviors. If you want to change your organization from being really conservative to being more risk-taking, you have to model risk-taking. If you want your organization to be more nimble and innovative from a values base, you have to model those things."

Why? Because we fall into the trap of projecting our feelings onto others. Leaders at organizations spend the bulk of their time coming up with the perfect plan and give short shrift to how they'll roll it out to their employees. As Epperson puts it, "We have a big party and expect people to get it." But not unlike the Kubler-Ross stages of grief, people ►

go through a series of emotions when faced with a major change — and the final stage in the Kubler-Ross cycle is only the third on what Epperson calls the steps of learning.

Employees start out by making sense of a change, then they accept the change, then they act on the change. Where they are in that process almost certainly won't be the same place as the leaders who thought up and decided to implement the change. It's the job of those leaders to get employees ready for their own roles.

That process can either center on courage or compassion. Leading through courage requires providing direction, trusting and empowering others and giving ample feedback, which is provided with a hefty dose of accountability for all involved.

Leading through compassion starts with providing the emotional support necessary for employees to adapt to change. Leaders must listen, empathize and, as in courage, provide ample and appropriate developmental feedback. Both approaches require accountability and honesty.

"Can we be transparent about what's going on?" Epperson asked. "We're not going to cry and wear destructive emotions on our sleeve, but we're going to be honest and not fake it till we make it."

Transparency and honesty are two pillars of Values Based Leadership (VBL), the core leadership philosophy for InnerWill and its associates.. The key to VBL is that by living, working and leading in

alignment with one's core values, a leader is more effective, engenders more trust and inspires others to act in a similar way.

VBL requires a good relationship between leaders and employees, and it takes a leader who can adapt to what his or her employees need.

"It's about building commitment, not compliance," Epperson said. "Change is not sustainable in compliance-driven cultures. Once that stick goes away, the change stops, as opposed to building people's commitment to a change by connecting with what they value most deeply."

That's why it's so important to shepherd employees through the steps of learning through courage and compassion. Helping them arrive where they need to get at as close to their own pace as possible builds in a degree of confidence in implementing the change.

"You're building people's emotional acceptance of a change. They understand it, they get the why, but they don't understand what to do or how to do it," Epperson said. "The application phase is helping them make decisions around that change, develop skills around that change, try some things out. Then comes integration, where people have developed their skills and you no longer have to spend time and energy driving this into the company because it's there, and it feels like it's always been there."

If all of this sounds like the most important factor is to hit the sweet spot in allowing employees the freedom to process and im-

plement changes, well, that's not far off. Striking the right tone can empower employees to soar to new heights, and getting it wrong can undermine a leader's plans.

"Freedom and fences," Epperson said. "The organization provides fences for decision-making. Inside the fence of your values, you've got all the freedom in the world."

"The overall message is how vital leaders are in this whole process. So goes the leader, so goes the culture, so goes the change. As leaders, we've got a responsibility to lead people through it. We can have a really negative impact on people or a really positive, sustainable one." ■

Hacking the Strategic Planning Cycle

Scott Wayne is a veteran VSCPA speaker, and his presentation at BIC, "Strategy in a World of Uncertainty," discussed a topic that was very much in the news at the time: The British royal wedding. (Two things: First, Wayne — a former British diplomat — brought a different perspective on the event than most BIC presenters would; second, you'd better believe we'll be jumping on the #RoyalWedding hashtag when we promote this.)

Previous Wayne sessions have dealt with negotiation and innovation, and this go-round covered strategy development. He began the talk with a discussion of the limitations of the traditional strategic planning cycle, which he generalized as "six months preparation for 12 months execution."

"Trouble is, if we were starting our strategy exercise 18 months ►

ago, [Hillary Clinton] was going to be president of the United States," he said. "The pollsters were certain of that and the voters were certain of that."

As we all know, President Hillary didn't quite work out the way people expected, and a lot of plans went up in smoke when the 2016 election returns came in. That's why Wayne says we need to make four main changes to the strategic planning process:

- Break the annual planning cycle
- Embrace ongoing development
- Create ongoing buy-in to execute the new strategies
- Be open to change

Wayne proposed several methods to getting people out of their comfort zones in the planning process. One is to go off-site (and it should be noted that Wayne just launched a new business, Canvas, that provides alternative spaces for meetings). Another is to break teams into pairs and send them on a walk to discuss issues. But he provided a few other tools to get the new ideas flowing:

Random Insights

In this exercise, create a set of cards ahead of time and come up with a set of random, polite questions, both business and personal, numbered 1–6. What do customers think of our business? Who's your favorite relative, and why? What's the biggest threat to our marketplace?

The difference comes in the answering. Break up into teams, then within those teams, each person



Scott Wayne of Frontier Academy discusses methods for shaking up the strategic planning process during his BIC session, "Strategy in a World of Uncertainty."

in turn rolls a die and answers the accompanying question on the card. The randomization is the key to getting the best insights.

"There's something about taking control away from the person holding the card that makes people answer," Wayne said. "It's the great leveler. Nobody is looking to the boss for control."

"Don't ask them to report back. Ask if there's anything anybody would like to share and watch it pour out of them."

The benefit of this exercise? Not only do you get to know your team better, but you get to hear the business thoughts that people have had in their minds but haven't deemed important enough to share. It's all about opening your employees up to thinking differently.

Brand Analog

Wayne's second exercise deals with corporate values, and he used the example of an anthropological study known as the Seven Nations

of the United States. That study, oddly enough, broke the country into seven separate nations: the Northeast, the South, Texas, the Southwest, the Midwest, the Pacific Northwest and Southern California.

"They happen to have 50 states, but culturally, if an anthropologist would look at it, they'd look at the seven nations," he said. "A Texan has as much in common with a New Englander as a Scotsman does with a Russian. If you ask any American their values, they'll all describe the same values, which are Midwestern values. But they're not all living them."

To hear Wayne tell it, we ignore values exercises that relate to strategy because they only result in aspirational values. In his words, "You can put it on the wall, but it doesn't actually change what you do." Your vision should be about your marketplace, not your company — and in Brand Analog, the goal is to determine where your employees think you fit into that marketplace. ►

Put a bunch of corporate logos up for reference, then ask your employees to fill in the blank: "To our customers today, we are the (blank) of this marketplace." They pick a company to represent you in the marketplace.

"You go around the room and people share the brand," Wayne said, "and much more important than the brand is why. Instead of using this strange business-school language, you're tapping into the millions of dollars of brand equity these companies have built up. It's your vehicle through which people will talk about third-party issues."

The results can be aspirational, but Brand Analog is most useful in identifying your corporate mission. If what your employees say is aligned with what leadership thinks, you're in good shape. If not, you've got some work to do.

Unicorns

"Unicorn" is a Silicon Valley term that describes something that shouldn't exist, but has been created. Unicorns tweaks that a bit by getting your employees to brainstorm what they would create if current conditions were no object.

For Unicorns, divide your employees into teams and give them the following scenario: You're a startup company with \$5 million in resources, but no legacy staff, systems or products. In other words, pure potential. What would you create?

"Feed them lunch, feed them lots of coffee and see what they create," Wayne said. "Anyone who says 'We should keep this,' you say, 'No, you have to build it.' If it's a server farm, you have to get a server farm. If it's Doris the tea lady, you have to hire Doris the tea lady."

As your employees share their thoughts, respond with open-ended questions. Why aren't we doing this? What's getting in the way? Categorize their ideas with colors:

- Green: Things that you must do
- Red: Things that, for legitimate reasons, you can't do
- Amber: Things that should become your mission, that you should investigate and invest in

"We haven't talked about departments or budgets or anything, and that's by design," Wayne said. "We want to wean people off measuring themselves by money or people they manage. It's a negotiation. We have to get them there."

Red Lines

This exercise is for the naysayers in your organization. It's product innovation, but centered on things that you will never do. Think expanding internationally, moving headquarters, offshoring services or changing your brand.

The key to Red Lines is that it's similar to serving as the devil's advocate. It's a way to encourage intellectual diversity and dissent. Wayne, ever British, compares it to the Oxford Union and Intelligence Squared debates.

"We should do X, there's an argument for, an argument against, and the audience asks questions. But there's a twist," he said. "In that formula, they select a winner. The twist is that you choose people to advocate for a position where you know they completely disagree with that position."

Wayne notes that this particular ex-

ercise is "great over cocktails" and that it serves a couple of purposes. It helps flesh out issues that are on your employees' minds, and you're showing that you value dissent and diversity of thought.

Tying it Together

All these exercises are important in helping narrow down your company's mission, vision and goals — and in promoting initiatives that lead to those outcomes. The key is not tying initiatives to departments, but segments of your market. You should be funding initiatives, not departments.

"You can put your reward system against how we are making progress toward those outcomes," Wayne said. "They will want to award budget to other departments if it helps the team get there."

"Imagine that we're in a battle and the marine unit is in possession of a cannon but won't give it to the army unit. You'd be outraged. That's the situation we're in here, but instead of a cannon, it's your budget."

What all these exercises do is frame your strategy not as a document sent down from on high, but an ever-evolving work. Wayne cites his own homeland's justice system as the idea of how you should think about your strategy.

"The United States is relatively unusual in having a written constitution. You can't see the British constitution, but judges will cite it," Wayne said. "It's based upon the body of behavior, norms and ethics."

"That's the way to think about strategy. It's just there. You worry about conversations and goals and metrics and not about writing it down." ■

Staying Out of the #MeToo News

Harvey Weinstein, Matt Lauer and Louis CK are some of the famous men accused of sexual harassment or abuse in the past year as the #MeToo movement gathered steam. But not all harassment is as obvious as what they're accused of. Because even less obvious forms of harassment can derail your organization, it's important to have strong policies in place.

That was the main lesson from the BIC session "Avoid Making Headline News: Preventing Workplace Harassment" with Faith Alejandro and Nicole Cheuk from Richmond-based law firm Sands Anderson. But more importantly, you should have those policies in place because it's the right thing to do.

"Your goal as an employer in these conversations should be preventing harm to your employees," Alejandro said. "When you shift the conversation from liability and the cost of these things to whether an employee has been harmed and what you can do about it, that mindframe is going to do better for you in helping identify these issues earlier and developing a plan to deal with them."

The first step in preventing workplace harassment, as Alejandro said, is having strong policies preventing it. A focus on what's acceptable and unacceptable lets your employees know you have their back and won't tolerate any harassing behavior. The next step is promulgating those policies, particularly with the supervisors who will be the first point of contact for any complaints.

"Your supervisors are your front line," Alejandro said. "They need to be able and have tools equipping

them to communicate with the people they work with so that people can go to them when issues arise, and supervisors can have frank conversations when they need to."

Harassment issues are governed by the U.S. Equal Employment Opportunity Commission (EEOC) a federal agency that enforces Title VII of the Civil Rights Act and other employment-related laws.

Those laws establish certain protected classes of employees — or more accurately, reasons for which employers are forbidden to discriminate. In Virginia, those classes are listed in the box above.

The last item in the box is covered by "whistleblow-

Protected Classes

The following classes are protected from discrimination in Virginia:

- Race/color
- National origin
- Sex
- Pregnancy (including lactating mothers)
- Religion
- Use of Family Medical Leave Act or military leave
- Disability
- Citizenship
- Marital status
- A person who associates with a protected class
- A person who opposes an unlawful practice or brings a complaint

er" laws and covers a large portion of EEOC complaints. You'll notice that sexual orientation is not on that list because in Virginia, it's not currently a protected class, unlike in 22 other states.

Federal courts are divided on the issue, and the Richmond-based Fourth Circuit, where Virginia is located, has held that sexual orientation is not covered by Title VII. However, two prominent circuits (the Second Circuit in New York and the Seventh Circuit in Chicago) have said that it is a protected class. Furthermore, the Sixth Circuit, based in Cincinnati, ruled in March that transgender workers are covered under Title VII as well.

In protecting those classes, the EEOC considers two factors — disparate treatment and disparate impact. The first is intentional and easy to spot — if an employer only requires African-American applicants to take a pre-employment test, that's clear disparate treatment. Disparate impact is not intentional, a facially neutral employment practice or policy that's not intended to cause disparate treatment but does in practice.

"A law enforcement division required all police applicants to be at least five feet, six inches," Alejandro said. "That's not intended to be discriminatory, but in practice, it ruled out the majority of female applicants. That policy was deemed discriminatory even though it was not intentionally so."

So we've covered hiring practices governed by the ►

EEOC. But what about harassment? That's a form of discrimination as well. Harassment is illegal when it's so frequent or severe that it creates a hostile or offensive work environment, when it results in an adverse employment decision (e.g. the victim being fired or demoted), or when sexual favors are asked or invited.

Courts consider numerous factors in determining whether or not conduct creates a hostile work environment. Was the conduct physically threatening or intimidating? Was the frequency of the conduct more than isolated or random, and if not, was it sufficiently severe? Was the conduct hostile or patently offensive? Would a reasonable person find it harassing? Finally — and perhaps most importantly from an employers' perspective — what efforts were taken by management to prevent the harassment?

"If you can prove you took action to prevent harassment, that is a defense," Alejandro said. "That's why we're up here telling people to have a policy. Make sure your supervisors have the tools to enforce the policy, because that can be a powerful defense."

"What we are stressing with our clients is that the cure for harassment starts at the top," Cheuk said. "Inappropriate comments are something of a gateway drug for harassment. Letting those jokes continue can lead to a larger issue."

"It doesn't mean you fire someone who tells a joke in the break room. It means you address it and the person who heard the joke is feeling heard."

That's a good practice both legally

and morally. A big part of creating a welcoming work environment is letting all employees know what won't be tolerated. Such actions have the side benefit of protecting employers and supervisors from liability. An anti-harassment policy can be an affirmative defense against liability by showing that the employer or supervisor exercised reasonable care to prevent and correct the harassment.

Cheuk noted that it's a good idea to send out a reminder of anti-harassment policies before social events. "That's when people get into trouble," she said. "Being drunk is no defense."

She also brought up the so-called "Mike Pence rule," named after the current vice president, who refused to be alone with a woman in the workplace. She noted that that rule often has the effect of preventing women from taking advantage of resources available to men.

"It's hard to have that rule and not send a message that women are like spiders out to get men and trap them into unacceptable situations that they're later going to turn on them about," Cheuk said. "If professional men and women cannot be alone together, women are the ones who will pay the price." ■

Transitioning a Family Business

No Richmonder reading this needs a primer on what Ukrop's is. Joseph Ukrop founded the super-market chain in 1947 in an old Safeway on Richmond's Southside and grew the business to a height of 26 stores. Despite being closed

on Sunday and not selling alcohol, the stores had a major following in Richmond based on baked goods, prepared foods and — most of all — exceptional customer service.

Ukrop's devotees were shocked in 2009 when the family sold all of its stores to a Dutch conglomerate. The stores were rebranded as Martin's and continued to sell Ukrop's-branded baked goods and prepared foods. Despite the newfound ability to buy a bottle of wine with your Ukrop's cake on a Sunday, the move wasn't much of a success for Martin's — most of the stores now operate under the Publix brand. But the Ukrop's brand lives on in those stores, as well as Krogers and Food Lions in the Richmond area.

Why are we telling you this? What was the benefit of inviting four Ukrop's executives to speak on the BIC panel "Reinventing the Family Business After its Sale"? The Ukrop's transition could help you in your own business. The Ukrop family wasn't afraid to move away from what had been successful in the past, and they learned some key lessons along the way — most notably, how to maintain your corporate values in a time of transition.

"Superior customer service is something we're in the process of redefining," said Ukrop's Food Group President Scott Aronson. "In the past, it was very clear what it meant. How you lived it out was a little more challenging, but what does customer service mean as a food service business and a retail partner? Is it just taking care of the end customer or doing all the things we need to do to ensure there's not a recall, even if it costs more or ►

takes longer?"

The sale wasn't without its detractors, outside and inside the company. VSCPA member John Zeheb, CPA, is the company's chief financial officer, and he wasn't exactly thrilled with the idea when it was first floated. But he came around and revamped his skill set to help the company make a successful transition from retail to manufacturing.

"I thought, 'They're going to sell the bread-and-butter part of the business and keep the part that doesn't make any money,'" Zeheb said. "I'm an old retailer. I've been around for 30-plus years. My heart is still with retail. Learning manufacturing and cost accounting wasn't my sweet spot, but it's been fun doing the things we're doing."

In the supermarket days, Ukrop's was known for that stellar customer service, where employees would carry your food to your car for you. That's how the chain built its reputation and kept a strong market share with its devoted customers in an era defined by consolidation among giant grocery conglomerates. So when it became untenable to maintain the retail arm of the company, leadership elected to continue to invest in its day-to-day employees as a way to maintain that reputation and level of service.

"If you keep someone in the same job doing the same thing year after year after year, they're not going to get any better," said Ukrop's CEO Bobby Ukrop. "If you provide them opportunities to grow, the whole company benefits. You will enhance your profitability by giving your people opportunities to do different things and grow their skill sets. They'll feel better about themselves and your company will be better."

Socially Speaking: #VSCPABIC18

#VSCPABIC18 Thank you Anne Hagen and the rest of the BIC committee your leadership and dedication to this great event.
#creatingacultureoflearning
— **@LNewsomMcCurdy** (Linda Newsom-McCurdy)

Positive but volatile investment

outlook for 2018. Look for opportunities to buy on a dip down.
#VSCPABIC18
— **@JLDernar** (Jaime Lynn Dernar, CPA)

Bobby Ukrop and sons told the fascinating story of the local business that transcended family at #vscpa-

That philosophy of constant improvement and reinvention extends past the rank-and-file workers to the corporate office and the company's financial strategy. Even after leaving the retail business, Ukrop's still finds itself battling with bigger chains that can lean on economies of scale.

"Sometimes we forget that these big guys are really, really good on the cost side. That doesn't mean we can be really, really bad," said executive vice president Chris Kanter. "We've got to keep working on our skill sets and working with people to at least be close on the cost side. We don't have to be the cheapest, but we can't be so far off that it's a turn-off to our customers."

If there's a universal lesson from the Ukrop's transition beyond sticking to your corporate values, it's to never get too comfortable. Ukrop's leadership saw the retail industry changing and made a bold move to protect the family business. Your organization must have the same willingness to move beyond its comfort zone, and you can't be afraid to leverage existing assets to get to a better position for the future.

"We were in a very unique position when we started this business because the capital we put in came from the retail operations," Zeheb said. "There wasn't a lot of capital needed. That was an obstacle we didn't need to deal with. That can be a big block for people entering this type of industry. We were blessed by not having that."

"Those first four years [after the sale] were all survival and foundational," Aronson said. "We had to figure out how to make payroll and set up checking accounts. We had to start all over again." ■

bic18
— **@dacman** (Dave Cummings, CPA)

@MzDwelch & @jacobLmowry are enjoying @VSCPANews this week!
#VSCPABIC18 —
@MyBlueRidgeBank

Spotted at #VSCPABIC18



Melinda Hancock, CPA, of the Virginia Commonwealth University Health System, discusses health-care trends and her organization's response during her session.



Jaime Lynn Derner, CPA, of Paya, Inc., in Reston, takes in Hancock's session, "Financial Implications of the Dynamic Health Care Landscape."



The Wisdom & Wine bonus session packed the house for a wine tasting and mobile app tutorial with Randy Johnston.



Mel Hodges, CPA, of Piedmont Senior Resources in Burkeville, learns from a colleague during a social-learning break.



Lauren Hunter, CPA, a sole proprietor from Norfolk, and Lilia Liwanag, CPA, of Leidos, Inc. in Reston, catch up at BIC.



BIC Committee Chair Anne Hagen, CPA, of the Masonic Home of Virginia in Henrico, laughs with VSCPA Senior Director, Learning Linda Newsom-McCurdy.

We look forward to seeing you at next year's Business & Industry conference, set for May 20–21, 2019, at the Williamsburg Lodge. Call (800) 733-8272 to get next year's conference at this year's rate!