
BUT THEY'LL NEVER RETIRE

OVERCOMING MANAGEMENT SUCCESSION PROCRASTINATION

By Michael Mangum & Jake Appelman

When construction executives speak

of making an effective leadership and ownership transition, they often use the term *passing the baton*, conjuring an image of a tightly coordinated, intensely practiced transition happening smoothly and effortlessly at high speed.

However, if most actual transitions looked like a relay race,

THE BATON WOULD SPEND MORE TIME ON THE TRACK

than in the hands of the participants. These fumbles are inevitable:

At its essence, the transfer of ownership and leadership in a closely held construction business is deeply personal and emotional.



While many contemporary construction leaders are incredibly entrepreneurial, independent, and passionate about creating great organizations, only a few manage to build *enduring* greatness. Consider some of the factors involved in ownership transfer: money, legacy, family, facing mortality, and the potential loss of status and sense of meaning. Very few leaders are more personally involved and their identity more deeply connected to a role than the owner of a construction company.

Owners and managers looking to transition their businesses face a perfect storm of factors challenging their efforts, including the illiquid nature of closely held ownership and the shortage of skilled labor. Despite these headwinds, leaders with vision and willingness to do the exceptionally challenging work of building and growing a great company will reap the rewards of a lasting legacy for the next generation.

At the Emotional Core

In an environment where owners and leaders often consider their companies more as a family than a corporation, it is no wonder that executives defer the difficult and often painful decision of transitioning to life's next phase. While most ownership and management transitions appear to be tactical on the surface, they are actually very personal and emotional at the core.

Research shows that the avoidance of pain is one of the most powerful drivers. Therefore, creating an atmosphere of safety and trust is essential for an owner or leader to overcome the fear of letting go of his or her business.

Contractors live in a perpetually urgent environment; liquidated damages are a daily risk with some carrying a cost of thousands of dollars per hour. Time is money. Given this world view, what can wait until tomorrow will wait until tomorrow; and, sometimes, activities of potentially profound significance – including the management succession process – fall into that category.

In his booklet *Tyranny of the Urgent!*, Charles Hummel explained that, “Our dilemma goes deeper than shortage of time; it is basically a problem of priorities. We confess, ‘We have left undone those things that ought to have done; and we have done those things which we ought not to have done.’” In other words, the sheer pace of life continually distorts our judgment.

If we avoid pain to our own detriment and experience heightened avoidance due to the distractions of a busy life, then

what is the cost of this procrastination? Often the result is the sale of the business or the passing of the baton to a next-generation leader who lacks the skills and seasoning to continue profitable operations. In both instances, the result is a disruption of continuity – a deferred set of decisions puts jobs at risk and significantly affects many people connected to the business.

There is a highly plausible argument for the premise that the greatest risk to the capital and earnings of a business is the transition of its ownership and management. Yet, rarely is the process equated with the word “risk.” Even external financial stakeholders in the business – typically banks and bonding companies – understate and frequently misunderstand the perils of this transition.

LEAVING TOO SOON

One common mistake is an owner or management's exit from the business too early or too suddenly. This is usually driven by an altruistic desire to let the next generation take over or by simply “having enough” of the long hours, risk, and stress of running a construction business. Some owners also believe that they can retain significant equity in the company and participate in the profit while absent from day to day business. However, this is rarely effective and often leads to disgruntled employees who are frustrated by running the business to fund an absent owner.

Most successful transitions are gradual and feature a phased and intentional transfer of responsibility, relationships, and equity. While this gradual transition conjures an image of a smooth and easy path, the reality is that there are almost as many starts as stops as the exiting leaders calibrate when, where, and how to transition key responsibilities. For example, one owner reviewed all estimates, just as he had done for almost 30 years. When he abruptly decided to stop reviewing them as part of his transition, the next year featured several unpleasant project surprises as his estimating team – trained to rely on his expertise for this vital task – eventually found its footing.

STAYING TOO LONG

An even more common mistake is staying too long, typically driven by either a failure to develop talent or an owner's unwillingness to let go. Staying too long often results from a leader or leadership team focusing most of their time running and/or growing the business, with too little time spent developing a team of leaders to succeed them. For example, when faced with very direct advice on the urgency of transitioning the business to his 55-year old son, an 82-year old owner swore, “The kid just isn't ready!”

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FEAR OF THE UNKNOWN

So, imagine the conundrum of the construction executive who grasps the consequences of inaction, overcomes the fear of potential pain of stepping out of the business, understands the enterprise-level risk, and yet *still* suffers from paralysis and inaction. Could there be an even deeper, more powerful barrier yet to overcome?

Yes – the fear of the unknown: *“This is all I’ve ever done, I am quite good at it, and I don’t know what else I could do that would even remotely approach the mastery I’ve achieved here.”* Rarely is a fear this personal and this profound ever voiced, yet it frames countless comments, objections, and concerns.

And, leaders with the added burden of the business bearing his or her name must also separate their personal identity from the corporate entity. Construction executives often liken the process of separating from the business to amputating an arm or leg. While graphic, this metaphor captures the depth of sacrifice demanded for many transitioning leaders.

Principles of Effective Transition

While there many barriers exist, there are a few essential principles of effective transition. Some, such as having a clear ownership transfer plan and a clear sense of timing and objectives, are intuitive to a rational, linear-thinking owner.

With a limited set of ownership transfer options (i.e., the vast majority of transfers in the construction are internal transfers, with only a small minority of mergers and acquisitions), the mechanics of a transfer are relatively straightforward. However, the more abstract and emotional factors play a central role in a transition’s ultimate success or failure.

COMMUNICATE & PROMOTE ORGANIZATIONAL VISION

One essential component of successful succession is a clearly articulated, communicated, and reinforced organizational vision. While many companies have some kind of vision or mission statement residing on a plaque or on the corporate website, most are a pale, sterile version of the real depth and richness of the company culture.

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Great organizations protect the heart and soul of the company by deeply reflecting on their “why” – the core purpose of the organization – as well as their “how” – the core values that guide how they live out the purpose. In addition, a company should clarify its aspirations for the future, projected 10-20 years into the future. Most critically, this work requires time, deep reflection, and the involvement of the next generation.

INTENTIONAL LEADERSHIP DEVELOPMENT

Another essential component of successful ownership and leadership transition is an intentional leadership development process that creates a deep bench of talent. Many transitioning owners neglect this work, partly because of a preference of getting and executing work vs. focusing on building people. Additionally, many current owners have personal experience in a “sink or swim” or “trial by fire” approach to leadership and assume that the next generation will learn as they did.

While the way they execute varies greatly, most companies that successfully transition have the following in place for leader development:

- A relatively clear leadership model that reflects the unique behaviors and critical make-up of a successful leader in the company;
- A rigorous process for assessing future leaders;
- A developmental planning process featuring intentional development of skills and attitudes needed to transition into increasing levels of responsibility; and
- A culture deeply engaged in mentoring, coaching, and developing others.

ESTABLISH A PURPOSE BEYOND THE FINISH LINE

Most exiting leaders tend to focus on the departure more than the arrival. Consider the expression, “Out with the old, in with the new.” Imagine leaving off the second portion; doing so casts the phrase in a negative light. One owner likened his retirement to having run a good race; he was solely focusing on the finish. All he saw was a sunset with no sunrise to follow. Cultivating a source of joy and satisfaction beyond the business is the “silver bullet” to a successful transition.

Consider an owner in the midst of a first-to-second generational transition. He started many years ago on estate planning challenges; cumulatively, he invested thousands of dollars and hundreds of days to assure the smooth transfer of assets. But issues regarding management succession received scant attention. It was only recently that

he expressed concern about his future role. “Sure, I need to get out of the way and I’m willing to do that. But I love this business and don’t want to walk away; that’s a whole different thing.” When the idea of his stepping into the role of “founder” emerged, he jumped at the chance, stating, “No one can ever take that away from me!”

Other transitioning leaders look outside the business for renewed meaning and purpose. Haskell Lemon, founder of Haskell Lemon Construction Company in Oklahoma City turned to a new “career” in finance after passing the baton to the next generation of leaders. Haskell chose to purchase a community bank after one of its tellers provided particularly surly service when he attempted to make a deposit – definitely an unconventional path to post-transition happiness!

Still, many owners/leaders have adequate financial means to fund a variety of meaningful endeavors. Consider the former CEO of a major publicly traded construction company who elected to start a small venture capital fund. He felt that his entrepreneurial talents, love of teaching/mentoring, and abundant capital would be just the combination to propel emerging businesses to the next level of success.

Many opportunities exist beyond the realm of business, too. In 1999, Robert Thompson left the road building business he founded, Thompson-McCully. With ample time and the powerful drive of a successful entrepreneur, he helped launch a charter school in Detroit committed to graduating 90% of its students and sending 90% on to college or vocational training. He successfully tapped into his lifelong passions of teaching and providing opportunities for others.

Everyone who has held the mantle of leadership too tightly (and for too long) has found it ripped from his or her hands. It is far better for a compelling vision of a new pursuit to provide the pull that leaves the business behind.

The Starting Line

Regardless of process, the often-perplexing question that emerges is “Where do I begin?” One would think there was a simple answer to a relatively simple question. However, a beginning, almost any beginning, is the first essential. Ned Hallowell, author of *Driven to Distraction*, stated it succinctly: “Putting it off doesn’t make it go away. Getting it done does.”

Many successful transitions also feature some kind of outside perspective, whether from a board of directors, peer group, consultant, or trusted advisor. Because so many construction business owners have a significant portion of their identity

and net worth tied into their business, it is exceedingly difficult to remain objective in the process. And while there is no shortage of attorneys, CPAs, estate planners, family members, and consultants ready to give advice, very few can truly understand the unique combination of deep emotional, financial, and legacy issues surrounding a business transition.

Consider our tendency to procrastinate – especially when dealing with deeply emotional, high-stake matters where one has little or no frame of reference. Tackling this dilemma via front-end accountability with another person represents a battle-tested method to leverage external involvement. Background and profession should be secondary to depth of relationship. The transitioning leader must feel comfortable sharing openly with this partner; a foundation of trust and respect should pre-exist their involvement.

Expect to identify a double-digit list of leaders who have previously walked this path. Pick up the phone and give them a call; odds are you will receive a wealth of wisdom and encouragement to begin the process.

The most compelling reason to begin – even when those beginnings are humble – relates to how best to drive change of this human nature. While myriad factors influence human behavior, one constant is the general reluctance of a group of people to accept new leadership when there is no compelling, evident reason for incumbent leadership to withdraw.

It is far more challenging for a business team to accept change at the top on an accelerated basis. It's better that the conversations start well in advance so that emotions are set at ease and people slowly come to grips with the impending change. Leadership transitions typically occur in a topsy-turvy world: what seems fast is really quite slow, and what seems slow is truly the quickest path to success.

On Your Mark

Achieving a successful transition at both the personal and corporate levels requires owners to take that first step far sooner than most would imagine. The journey is indeed long, yet it is immensely satisfying to arrive at the final destination. ■

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