EXECUTIVE SUCCESSION PLANNING

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Research Highlights

- The average Contractor Succession lasted **9 YEARS - 2 Years** for Planning, **3 Years** for Preparing and **4 Years** for Transitioning and Mentoring.

- **Executive Poor Health** was the leading factor to poorer planned successions and company **dissatisfaction** during transition.

- **100%** of the contractors received **outside consultation** with their succession planning. Experts in succession planning provided additional consultation to assure **positive internal relationships** during transition.

- The average Successor had **15 years** of experience and was **45 years** old. **83%** of successors gained experience by working their way up the industry ladder. **75%** of them had college degrees.

- **50%** of the companies **lost senior leadership** after the first year of the transition because they disagreed with the selection of the successor or they did not agree with the new boss.

- Executives remained with the company **75%** of the time after transitioning and remained with the company for **4 Years**, acting as a mentor, union liaison, estimator, project manager. They all agreed to give the **Big Office** to the **New Boss**.

- Companies that incorporated the **Top 10 Practices** presented in the research enjoyed **greater** individual, company, employee, bank, and bonding company **satisfaction**.
Executive Summary

In 2011, ELECTRI International partnered with Arizona State University to conduct research with electrical contractors to identify trends and characteristics that impacted executive transition. The summary presents first the research findings and the lessons learned that were provided by the contractors that have recently experienced transition. Second, ten best practices for planning successions found in past research is presented. Included is a brief description of the best practices and the research findings that demonstrate how these best practices provided greater satisfaction during the transition period of key senior leadership. Finally, the summary ends with additional research that was found on leadership transition which provides further insight into succession planning research and the difficulties that are included with succession planning.

Research Results

We interviewed twelve companies associated with the National Electrical Contractors Association (NECA) and collected information on their recent experiences with leadership transition. We found many trends and insights to succession within construction companies and developed a timeline of the leadership transition. The timeline is presented and is followed by the research findings in chronological order of the timeline.

Succession Timeline

We found that the average timeline for leadership transition was nine years and could be broken down into three separate phases that ended with a major event (see Figure 1): phase 1 is the planning phase and ended at the “selection” of the successor; phase 2 is the preparing phase and ended at the “transition” of the predecessor to successor; and finally phase 3 is the mentoring phase which ended with the “departure” of the predecessor.
PLANNING PHASE FINDINGS

- The planning phase lasted two years on average.
- Clearly found that planning for succession created better leadership transition.
- Those that began planning due to health problems had less effective leadership transitions. The leading cause of poor health was cancer.
- Methods used to improve planning
  - Formally compiled and agreed upon the succession plan (in writing).
  - Met regularly – meeting twice a month on average improved planning.
  - Captured the vision of the company in the plan to ensure the right candidate was selected and trained.
  - Prepared a plan of activities and responsibilities to develop the successor.
  - 100% of the companies received outside consultation (lawyers, accountants, industry experts, etc.). 33% hired a succession planning consultant.

Lessons Learned from the Contractors

- “You can’t predict future issues, but you can make plans to minimize these issues.”
- “Create a plan and work your way through it because it is not going to happen on its own naturally. Avoid taking anything personally with the family company and understand that the plan is set and work towards the group’s goal.”
- “Have a succession plan situated properly for everyone and to make sure that talent management processes are in place so that individuals can be ready to take over positions within the company, especially in times of emergencies.”
- “Don’t be afraid to ask for advice from the experts even if you have to pay for the advice.”
SELECTION EVENT FINDINGS

❖ The successor on average had 15 years of experience at the time of becoming president, and on average were 45 years old.

❖ Successors previous Job Titles
  ○ Project Manager (50%), Vice President (38%), Chief Financial Officer (12%)

❖ The majority (83%) of Executives believed it was a bad idea to have anyone own stock in the company unless they worked directly with the company.

❖ Half of the family-owned companies had children who were interested in taking over the company.

❖ The Children that were interested were more prepared and enjoyed greater success with the leadership successions than the children that had little interest in the company. High failure rate occurred when uninterested children assumed leadership of a company.

Lessons Learned from the Contractors

❖ “Start looking for your successor the second day you become the boss.”

❖ “Find the right people for the position, even if they are outside of your family, be mindful of the pressure that is put on kin to take over the company, in case they do not have the desire to run the company.”

❖ “If at all possibilities promote from within. If you don’t think you have the right guy from within, look again before you go outside.”

❖ “Don’t rush your decision, don’t commit until you know for certain who the individual is to take your place. If you start saying things to people early you don’t leave any room for you to be able to change your mind.”

❖ “The age difference is important for the transition as the successor must have the years of experience that prepares them to handle the responsibilities, but not too close to the age of retirement so the transition still makes sense”
PREPARING PHASE FINDINGS

- The preparing phase lasted three years on average.
- The majority (83%) of the successors gained experience by working their way up in the industry.
- The majority (75%) of the successors also earned college degrees.
- Ways in which successors prepared to take over leadership responsibilities
  - Inside mentoring from the predecessor and/or experienced employees
  - Business or leadership classes or seminars
  - Read leadership articles and books
  - Was assigned new projects or areas of responsibilities
  - Slowly absorbed president’s responsibilities
  - Attended public speaking courses
  - Got involved with industry association
  - Hired a personal fitness coach for health reasons
  - Started career with similar company before returning to the family company.

Lessons Learned from the Contractors
- “Make your own reputation by getting involved with the work from the bottom up, the employees will see your work ethic and leadership style and gain respect for you."
- “Get involved outside the business and establish relationships among the union organizations, bank, and bonding companies.”
- “Working outside of the family company gives family business heirs the opportunity to gain experience, respect, and creditability when they return to the family company.”

TRANSITION EVENT FINDINGS

- Half (50%) of the companies lost senior management the year after the transition.
- Reasons that senior management left:
  - 50% disagreed with the predecessor’s selection of the successor
  - 33% disagreed with the new successor’s management style
  - 17% left for a better opportunity
Lessons Learned from the Contractors

- “Be cautious on both parts as the predecessor and successor, both need to understand what they are stepping into and really be prepared for their new responsibilities.”
- “Understand how to transfer the ownership is critical, especially if you have personal money tied up with the company’s future performance, this goes back to ensure that you have selected the right successor.”
- “Business owners who do not have an heir successor or an individual to take over the company should look into the options of selling their company to public companies.”
- “Cross Purchase Agreements are very beneficial for companies that have multiple owners to protect the vision of the company in case of a sudden death.”

MENTORING PHASE FINDINGS

- The mentoring phase lasted four years on average.
- 75% of the predecessors stayed on with the company after the transition.
- Only 42% of the predecessors that stayed on with their companies had predefined responsibilities after the transition, which lead to disputes for the remaining predecessors that did not understand their new role.
- Responsibilities of predecessors after transition
  - Mentor (88%), Union liaison (25%), Estimator (13%), Small PM roles (13%).

Lessons Learned from the Contractors

- “Don’t leave right after transition, the plan should include a time for the predecessor and successor to work together, which gives the successor someone to mentor them until they feel comfortable.”
- “Once the transition takes place, give the successor the big office and go sit in the corner somewhere.”
- “Predecessors staying on and being part with the company past the ownership transition can be a real challenge for both the successor and the predecessor if the roles and responsibilities are not determined before the transition.”
Recommended Practices in Succession Planning

A review of succession planning articles was conducted to find the best practices recommended for succession. A search of articles related to succession planning was conducted with several highly acclaimed business publications. Each article found was studied for best practices relating to succession. All recommended practices suggested in the articles related to improving a company’s transition of leadership was recorded and tracked to determine the recurrence of best practices among researchers.

In total 70 articles with succession planning were found and analyzed for best practices. The top ten recommended practices that were recognized to be consistent with the articles are listed in Table 1, the table lists the best practices in order of recommendation frequency.

<table>
<thead>
<tr>
<th>#</th>
<th>Recommended Practice</th>
<th>Recommendation Frequency</th>
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<tbody>
<tr>
<td>1</td>
<td>Prepare a succession plan</td>
<td>100 %</td>
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<tr>
<td>2</td>
<td>Analyze and select quality candidates</td>
<td>73 %</td>
</tr>
<tr>
<td>3</td>
<td>Prepare a plan to develop the successor</td>
<td>64 %</td>
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<tr>
<td>4</td>
<td>Prepare well defined/communicated responsibilities</td>
<td>50 %</td>
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<tr>
<td>5</td>
<td>Secure senior level support</td>
<td>50 %</td>
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<td>6</td>
<td>High level of communication</td>
<td>50 %</td>
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<tr>
<td>7</td>
<td>Talent management processes in company</td>
<td>41 %</td>
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<tr>
<td>8</td>
<td>Capture the vision of company</td>
<td>36 %</td>
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<tr>
<td>9</td>
<td>Measure performance before and/or after succession</td>
<td>36 %</td>
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<tr>
<td>10</td>
<td>Agreed responsibilities of the predecessor after transition</td>
<td>36 %</td>
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Top Ten Recommended Practices in Succession Planning

A brief summary of each of the best practices found are presented in order of highest recommendation:

1. Prepare a succession plan

Among all the recommended practices found within the articles, the only practice consistently found among the articles was preparing a plan for the succession. Most plans
begin informally and develop through time to be a formal written plan, which helps the transition period go smoother through the three phases of succession: 1. before transition; 2. during transition; 3. and after transition (Sharma et al, 2003b). Planning for succession includes many of the best practices that are found throughout the articles but primarily include a transition timeline, how a candidate will be selected, how the candidate will be trained and how the succession will happen. The thought and time that is required to prepare a formal plan adds value in itself to prepare the successor, predecessor and company for the transition (Hansen & Wexler, 1988).

Beckhard and Dyer’s (1983) plan includes recognizing and minimizing the risks that are involved with executive transition, specifically the risks that are involved with the key players such as their attitude with change, capabilities to change, and the relationships with those involved with succession. If organizations are not prepared to begin with planning succession, bringing in outside consultants is often recommended for assistance with legal, accounting, and succession issues (Hadelman & Spitaels-Genser, 2005; Sharma et al, 2003b).

Research has shown that companies that plan for succession are more successful with leadership transitions and are more profitable over time (Behn et al, 2005; Lee et al, 2003; Trow, 1961; Sharma et al, 2003b). Even though succession planning has been recommended in numerous studies, company continue to avoid preparing themselves for the impact of succession; a survey done in 2008 found that 55 percent of organizations have no succession plan to replace their leadership (Hansen & Wexler, 1988), another study found that only 35 percent of 1318 CEO executives had a succession plan (SFGate, 2011).

2. **Analyze and Select quality candidates**

Christensen (1953) recommended that potential successors should be selected and analyzed to determine the best candidate to succeed the executive position. The needs of the organization should be determined when selecting the candidate to ensure that the appropriate replacement is selected (Schleifer, 1999). Hadelman et al (2005) suggests for finding the appropriate candidate that fits the needs and vision of the company by allowing the candidates to present their vision and goals of the company’s future, the company’s future needs, and the short and long term responsibilities of the position. The idea that the successor needs to have the same skills sets as the current leader has been found to be false and can be destructive to a
company (Buckingham & Vosburgh, 2001). If a candidate is not located internally within a company, then the company should look externally at outside candidates (Miles & Bennett, 2007).

3. **Prepare a plan to develop the successor**

Developing a formal plan for the successor to follow will help prepare them for the future, this plan should be created or agreed upon by the successor (Dyck et al, 2002) and should be easy for the successor to follow (Fulmer, 2002). There are many activities that can be used to prepare a successor, Bernthal and Wellins (2006) provides a list of development programs that human-resource departments have utilized to prepare leaders, presented below in the order of use and effectiveness:

1. Formal workshops
2. Special projects within one’s own job responsibilities
3. Articles/books
4. Tests, assessments or other measures of skills
5. Coaching with internal coaches or mentors
6. Special projects outside of one's own responsibilities
7. Computer-based learning
8. Coaching with external coaches or mentors
9. Expatriate assignments

4. **Prepare well defined/communicated responsibilities**

Individual roles and responsibilities should be well-defined and communicated before the transition, the successors should be well aware of these expectations and be in accordance before accepting the risk involved with executive responsibilities (Sharma et al, 2003a). The predecessor or key stake holders should also have well defined expectations of the successor’s responsibilities so that the successor is not held to unattainable expectations (Morris, et al, 1997).

5. **Secure senior-level support**

 Depending on the size of a company, senior-level management can vary from one individual to a board of stake holders. Regardless, succession planning requires that top
management is on board with planning the succession of leadership, if there is no senior-level support the succession plan can be ineffective (Fulmer, 2002; Carey & Ogden, 1997). Although succession planning can often begin with a push from the successor, senior leadership must buy into the importance of succession planning and add their input to the plan, so they have ownership and approval to the succession plan (Ibrahim et al, 2001; Morris, et al, 1997; Sambrook, 2005).

6. Talent management process in company

Hartley (2004) defines talent management as, “Talent Management is the process of recruiting, on-boarding, and developing, as well as the strategies associated with those activities in organizations.” Developing a talent management process within a company creates a succession culture within the company, motivating employees to develop their abilities in the company to advance their career (Carey & Ogden, 1997; Hall, 1986). Chavez (2011) reiterates the importance of developing leaders within the company, “Companies that neglect to develop leadership at all levels not only face the risk of losing knowledge, experience, and seniority when executives retire, but they additionally suffer lower productivity from an overall lack of employee engagement.” The longer that the candidates have to prepare for the succession the more prepared they will be once time for succession occurs. The “succession culture” within an organization that Carey & Ogden (1997) refer to will help executives focus on developing candidates continuously by giving them opportunities of growth so that they are prepared to contend for advancement.

7. High level of communication

Communication breakdowns are often found during the transition of leadership within small or family organizations (Ibrahim, 2001), high communication between predecessor and successor in family organizations develop better relationships, which can decrease commonly found issues with leadership transition (Morris, et al, 1997). Breakdown of communication means that there will be a breakdown of trust with individuals involved. Ward (1987) suggests that this lack of trust or communication between a predecessor and successor may give the successor the impression that information is being withheld purposely. Hubler (1999) elaborates that true communication requires vulnerability, which some family members might not have with other members in the family businesses. This lack of communication may
originate from the lack of capability, experience, confidence, or through past negative experiences.

8. **Measure performance before and after**

High performing organizations understand the importance that performance measurements have on the management of their organization, collecting metrics of individual performance will assist the company before and after succession (Fulmer, 2002). Before transition, progress and performance with talent management processes should be measured, this will provide performance metrics that can assist the selection of potential candidates (Groves 2006; Chavez, 2001; Bernthal & Wellins, 2006). After transition performance metrics can bring transparency to the level of success of the successor, Dalton (2006) describes that 40 percent of CEOs fail in the first 18 months after transition, the necessity of a plan with measurable metrics is crucial to evaluate the first-year performance of the successor (Miles & Bennet, 2007).

9. **Capture the vision of the company**

Capturing the company’s vision and strategic goals should be in the beginning stages of the succession planning to determine what needs the organization has for its future leader (Hadelman & Spitaels-Genser, 2005). Selection of the successor should be made with how well the candidate aligns with the vision of the company and should be able to understand the vision of his predecessor (Sharma et al, 2003b). By understanding the vision of the predecessor, efforts can be made to capture the empirical knowledge from the incumbent before it’s lost so the company will continue in its strategic plan (Sambrook, 2005).

10. **Agreed responsibilities of the predecessor after transition**

The incumbent’s willingness to prepare a succession plan and step down when the time is appointed, directly affects the successfulness of the transition (Sharma et al, 2003a; Sharma et al, 2003b). There are many reasons that the incumbent leader might not want to step down from the top level of management: unwillingness to lose control over the business; lack of outside interest; fear of losing their identity without the company; not prepared for retirement; or fear that death is related to retirement (Kirschner & Ungashick, 2005; Cairns, 2011). The myth that a founder of a company must let go of all control is incorrect, with proper planning responsibilities can be assigned so both the predecessor and the successor agree upon future
controls (Kirschner & Ungashick, 2005). Detailed responsibilities should be lined out for the predecessor pertaining to any future contributions that they will be involved with to mitigate any conflicts of management with the predecessor and successor. A departing predecessor who does not follow this plan is in risk of offending and losing the successor to another company (Sharma et al, 2003a).

**Best Practices Lead to Higher Satisfaction**

We measured the number of practices that the twelve contractors performed and measured the level of satisfaction of each transition. The satisfaction of the executives, employees, clients, bank, and bonding companies were higher when more of the recommended practices were performed in the leadership transition (see Figure 2).

*Figure 2- Satisfaction of Transition due to Recommended Practices*
Additional Succession Research

Research in planning for succession dates as far back as the early twentieth century with Henri Fayol’s 14 principles of management published in 1916. Fayol’s (1949) twelfth principle acknowledges the importance of developing and retaining key employees with his principle of “Stability of Tenure Personnel.” However, it was not until the late 1950s and early 1960s that research in succession planning developed from mere case studies to being tested and studied for hypothesis confirmation (Kesner & Sebora, 1994). Oscar Grusky is acknowledged for his early recognition of the lack of research within the field, his development of research methods to test hypotheses within succession has become the base for researchers to follow (Grusky, 1961; 1963). Grusky’s two basic reasons for the need to study succession were: “(1) Administrative succession always leads to organizational instability, and (2) it is a phenomenon that all organizations must cope with” (1960). This correlates with research that shows that an immediate impact most often negative is involved with leadership transition in some way or another (He et al, 2010). Only 30 percent of family businesses survive leadership transition from the first generation to the second generation, even fewer of the companies survive to the third generation (Beckhard & Dyer, 1983). Walter Mahler (1980) was the first to recognize the advantages of succession planning to company’s performance and encouraged companies to preplan for transition. The research continued to develop approaches and studies in succession planning and has focused on various impacts of succession such as: company size, type, industry, internal vs. external candidates, methodologies, psychological characteristics with succession, and more (Kesner & Sebora, 1994).

Successor Origin was found to be the most studied topic in Kesner and Sebora’s review, selecting an external or internal successor became highly researched to find which was more successful. Although numerous studies have been conducted a clear advantageous origin of the successor has not been determined, both positive and negative effects have been found with external and internal successors. In Wiersema (1992) study of 146 companies he makes the argument that less post-strategic change can occur with insiders, increasing company stability. Often this recommendation to hire within an organization is made to reduce the risk accompanied with an external candidate (Miles et al, 2007; Dalton, 2006).
**Rate of Succession** has also been researched frequently to find out how often succession happens and what cause it to happen. For example, they found that there are fewer leadership transitions in high-performing companies because of the stability found with the leaders. Kesner and Sebora (1994) also found that fewer leadership transitions occurred in firms where: the employees shared similar beliefs, the president held more ownership, and the president had more control over the succession process. Trow’s (1961) study of 108 small manufacturing companies found that the median rate of executive succession to be 20 to 25 years in a company, a founder of a company on average lasts 30 years, a non-founder executive lasted on average 15 to 20 years, and those that were neither the founder nor the principal owner had the lowest average of 14 years.

**Family and Non-Family Owned Differences**

A large difference in leadership changes can be found between family and non-family companies, with 80 to 90 percent of businesses in the United States being family owned. The majority of the construction companies are also family owned (Schrader, 2006; Duman, 1992; Kets de Vries, 1993). The pool of candidates that a family firm has to select potential successors is smaller and usually encompasses fewer candidates who have developed the necessary management skills through past training and experiences (Daily & Dollinger, 1991). Morris et al (1997) presents distinguishing differences in family-owned and non-family owned companies with succession:

- Family executives have more personal stake in the firm, while non-family executives have limited stake in the firms.
- Family executives are held responsible by family members, while non-family executives are held responsible by stockholders.
- Family executives usually have been with the company their entire life, while non-family executives seldom remain with one firm their entire life.
- Company failure results in a large personal and family impact for family executives, while company failure impacts non-family executives less.
- Family executives will very unlikely be terminated, while non-family executives have a better chance of being terminated.
Family executive’s personal gain comes through the company’s growth or success, while non-family executive’s success is more of personal fulfillment through achieving career goals or more compensation.

Succession can be difficult and confrontational in family companies due to jealousy and entitlement issues between family members, which can be controlled by stockholders if disputes occur within a non-family company.

Disputes and conflicts tend to remain in a family-owned company in more of a circular pattern in which issues tend to resurface repeatedly, compared to a non-family firm where issues are more of a linear pattern and are resolved and do not resurface.

Non-family employees do not have a cap to their career growth in a non-family firm like they might have in a family company, which promotes competition to succeed.

**Resistance to Succession Planning**

Many reasons can attribute to why nearly 50 percent of companies are not preparing for leadership transition, but often it is due to the top leader’s resistance to plan for succession (Fulmer, 2002; Carey & Ogden, 1997; Weisbach, 1988). Handler & Kram’s (1988) work presented the four areas that create resistance to succession planning: executive individual level, executive group level, organizational level, and environmental level.

*Executive individual level*

- Health of the executive is a key factor in the succession planning that occurs, the less health problems the greater resistance will be seen to plan for succession. One survey found that 54 percent of individuals that retired before the age of 65 listed poor health as the reason (Smedley, 1974).
- Lack of interest outside of the company will create resistance for an executive with planning succession.
- Executives who identify only with the business are more resistant to plan for succession then an executive that can distance themselves from the business.
- Executives who do not delegate responsibilities within the company causes resistance for planning succession.
- Executives who fear aging, retirement, and death are more resistant to plan for succession then an executive that sees opportunity in retirement.
• Executives who avoid technical advice and consultation are more resistant to plan for succession then an executive that seeks consultation.

Executive group level
• Communication breakdown and dishonesty between the individuals within the group create resistance to succession planning.
• Lack of trust between the individuals within the group creates resistance to succession planning.
• Heir apparent appears disinterested, unable, or inappropriate creates resistance to succession planning.
• Minimum training and mentoring between the individuals within the group create resistance to succession planning.
• Uneven authority between the individuals within the group creates resistance to succession planning.
• Conflicts among the group create resistance to succession planning.

Organizational level
• A culture that fosters growth and continuity of the firm reduces resistance to succession planning.
• An impending organizational crisis reduces resistance to succession planning.
• An organization that promotes delegation of responsibilities among employees reduces resistance to succession planning.

Environment level
• A problematic environment reduces resistance to succession planning.
• An industry that has few requirements and regulations reduces resistance to succession planning.
• A profession that has few requirements and regulations reduces resistance to succession planning.

Financial exchange of the company is another key factor that delays an owner of a company to prepare for retirement, specifically with understanding the options an owner has to exchange ownership and how to value the company properly (Kirschner & Ungashick, 2005).
**Conclusion**

In conclusion, succession planning is not an individual activity but is an ongoing process that requires an organization to plan and coordinate over a period of time for succession to be successful. Succession planning is essential to the legacy of the company. Numerous companies continue to fail to plan for transition, which leads to crippling impacts to the company and in some of the worse cases causes the company to fail. Because of the importance of the human resources in construction companies, succession planning is highly recommended to sustain the goals and profits of the company. The top ten recommended practices provide a foundation of the necessary steps that need to be included in succession planning. The research findings and the lessons learned from the contractors provide a great resource for future companies to understand the steps needed to plan future transitions. Don’t delay: there is no better time to begin planning for succession than now.

**References**


