

Hi, this is Wayne Rivers at FBI, where *We Build Better Contractors*.

This week I want to talk about the state of the succession planning art. 34 years I've been doing this, and sometimes I get a little frustrated. So, three things happened to me within a short span of maybe a couple weeks, I spoke to a Wall Street Journal reporter who was doing a story about business succession. I went to an industry conference. And on the way, either to or from the conference, I read a book about contractor exit planning. And these three things just got together in my mind, started percolating, and I started thinking about, is this really the state-of-the-art succession planning in 2023? It just was kind of blowing my mind. I'm a little worried, to be blunt about it.

So now what about this is important to you? Well, succession planning comes up all the time in our conversations, in our peer groups. I heard a reputable speaker say that the average age of a contractor today is 61 years old, and furthermore, 90%, 90% of senior leaders in construction firms plan to exit out in the next five years. Wow. I mean, that could be earthshaking for the senior leaders. 90% of senior leaders that are running companies today will be elsewhere or in very different roles in five years. That's something. So now what confluence of things popped into my mind as I'm mulling over these sources?

First, one of the sources was a focus on industry. I think the comment was we focus on 18 different industries. Wait, isn't that the opposite of focus? Construction is a unique industry, unique accounting. Virtually every job is unique. Every job site is unique. Your trade partners... I mean, construction is a very different industry. Seems to me that there's plenty to focus on in this one industry rather than trying to broaden it to 18. I heard lots of references in these various sources to bringing in HR leaders as a integral part of the succession planning process. Again, I just have to shake my head. Small to mid-sized contractors, heck, even some very large contractors, don't have HR leaders that rise to the level of C level, COO, CFO, CEO, strategic partners in the business. Certainly, small and medium contractors do not have that person. Big contractors maybe. But I can't remember the last time an HR director or senior HR person in a contracting company was really integral to the succession planning process.

Anyway, third thing. I heard about outside boards. Okay, and I heard a speaker talk about an outside board composed of the CPA, the attorney, the insurance agent, the banker, and the CFO. What's outside about that? Aren't all those professionals already in the employ? You don't you already cut checks to those professionals? Putting them on your board makes them better how? Putting them on a board makes them smarter, makes the information they deliver to you better, higher quality? That doesn't make any sense.

Boards need to be like peer groups. They need to be composed of people who are wearing the same shoes you wear, brother and sister contractors, brother and sister businesspeople that know what it takes to meet payroll and run a business and grow and prosper. Putting your professionals on a board when they're already in your employ doesn't make any sense at all to me.

Fourth thing I heard, the process has to be a top-down driven process. If the process is driven by the senior leaders, those who intend to depart in the next five years potentially, who is the process going to favor? The way we approach it, the way we think this has to be done is when you look at succession planning in a construction company, sure, you've got to have the senior leaders on board. Absolutely right. But you have to have the successors on board too, and don't you have to have some representative group of the employees that have transparency into the process so that everybody knows what's going on in the organization, and they can be aligned and be a part of the same culture and the same strategy going forward? Everybody in the organization needs to be involved to some level. It can't be top-down only, and then everybody else just takes their marching orders.

What does that say about the leadership of the successors, if they even allow that to happen? Which brings me to my next point. Excessive deference to the senior generation on the part of the junior generation. I wrote a paper I think ages ago

about... well, actually questioning the courage of next generation successors because of this excessive deference to the senior generation. Now, I know that you love that senior group of people, whether they're moms and dads or aunts and uncles, or even just valued friends with whom you've been working for a long time. I understand that. But lionizing those people and deferring excessively to those people says awful things about the courage you need to run a construction company. If you're a deferential person, maybe construction's not the industry for you. It's got to be win-win.

When I think about win-win, I think about an equation. I wasn't all that great in math. I was okay, but I know that equations have to balance, right? If you do something to one side of the equation, you have to do the same operation on the other side or it won't balance. So if all the advice goes on the senior side of the equation and you've got the lawyer and the CPA and everybody working for the benefit of the senior side to make sure their exit is sound, and little or no effort is put over on the other side of the... the successor generation, how is that win-win? That's really just setting the successor generation up for a lot of hard work and potential failure, which nobody wants. Nobody wants that.

Okay. To us, succession is three things. It's not one thing, it's three things. The Wall Street Journal reporter had talked to experts all over the USA. She gets around to me, she's never heard most of this stuff before. Why? Because the other experts always, always, always focus on ownership succession, which is the easiest part of it. You've got to have, in addition to that, management succession. Who is going to estimate stuff? Who is going to construct stuff? Who is going to maintain equipment? There's got to be some management succession in that group, in that process as well. And then the third piece is leadership. Somebody or some group of people has to lead. And maybe they need training to lead. Maybe they're not ready yet. Without those three pieces working in concert, succession can't be as effective as it should be.

All right, so now let me climb off my soapbox and tell you what succession... What's the key component in succession? Number one, time. Give yourself time. People come and go. Change management is hard. It's challenging. What's the oft-quoted statistic about Fortune 500 companies? Something like 90% of change initiatives go unresolved. They don't produce the changes desired. Economic cycles change. You screw up, you go in one direction only to find it's an improper direction, and you need to pull back and maybe head in a different direction. Give yourself time. You've got to have time to teach and mentor successors. You've got to get them the education and training they need, and potentially you need to be able to go to your peer group or some other source of risk-taking peers and find the answers that worked for them in their succession planning process. Makes sense, doesn't it?

The state of the art of succession planning is much better than it was when I started 34 years ago. Clearly, it has ways to go. So, let's hear from you. What do you think? What's on your mind with respect to succession? Please give it to us in the comments. And this is Wayne Rivers at FBI, where *We Build Better Contractors*.