

Effective Succession Planning in Construction Companies

by

Anthony Perrenoud

A Thesis Presented in Partial Fulfillment  
of the Requirements for the Degree  
Master of Science

Approved March 2012 by the  
Graduate Supervisory Committee:

Kenneth Sullivan, Chair  
William Badger  
Thomas Schleifer

ARIZONA STATE UNIVERSITY

May 2012

## ABSTRACT

Human resources have always been the most critical factor in the construction industry, and now, with a historic generation entering the age of retirement, the construction industry needs to place greater effort in preparing for the succession of their most important of human resource, their leaders. A significant body of research has shown that succession planning minimizes the negative effects that come with leadership transition; however, little research has focused specifically on the construction industry. The majority of construction companies are family owned or have small pools of potential successors, which make them more susceptible to the negative impacts that occur with poor planning for succession. The objective of this research focuses on developing a methodology that will assist construction companies plan and prepare for a leadership transition. Data is gathered from case studies of twelve construction companies that have recently experienced leadership succession. The data is analyzed for practices and characteristics that correlate to successful leadership transitions. Through the findings in the literature review and data analysis of the case studies, the research successfully achieves the objective of developing a potential methodology for increasing the effectiveness of succession planning in a construction company.

## ACKNOWLEDGMENTS

First I want to dedicate this thesis to my wife and thank her for her love, patience, and support. Kellie makes me a stronger, smarter and better person.

I would like to thank Dr. Kenneth Sullivan for his amazing guidance with my research, his foresight and knowledge has been highly influential to the success of my research.

I am greatly appreciative to Dr. Tom Schleifer and Dr. William Badger for providing a foundation of knowledge in the beginning of my research that I was able to build upon.

Also I give thanks to all of the contractors that donated their time and their stories to provide the case studies in this thesis. I hope that through their shared experiences industry will be better prepared for leadership transition.

Lastly, I want to thank my family who has always supported me in my life pursuits.

# TABLE OF CONTENTS

|  | Page |
|--|------|
| LIST OF TABLES.....                                    | vi   |
| LIST OF FIGURES .....                                  | viii |
| CHAPTER  |      |
| 1 INTRODUCTION.....                                    | 1    |
| Introduction.....                                      | 1    |
| Succession Planning .....                              | 2    |
| Challenges in Succession Planning.....                 | 3    |
| Succession Planning in the Construction Industry ..... | 4    |
| Problem Statement.....                                 | 5    |
| Research Objective .....                               | 5    |
| Research Methodology Summary .....                     | 6    |
| Research Scope and Limitations .....                   | 6    |
| Summary of Thesis .....                                | 7    |
| 2 LITERATURE REVIEW .....                              | 8    |
| Introduction.....                                      | 8    |
| Succession Research History.....                       | 8    |
| Areas of Succession Research Focus .....               | 9    |
| Family and Non-Family Owned Differences.....           | 11   |
| Resistance to Succession Planning.....                 | 12   |
| Critical Review of Recommended Practices.....          | 15   |

| CHAPTER   | Page |
|---|------|
| Top Ten Recommended Practices in Succession Planning..... | 16   |
| Lack of Construction Industry Research.....               | 22   |
| Comparison of Recommended Practices .....                 | 25   |
| Conclusion .....  | 26   |
| 3 METHODOLOGY.....  | 28   |
| Introduction.....   | 28   |
| Data Collection .....                                     | 28   |
| Data Analysis .....                                       | 30   |
| Summary .....   | 33   |
| 4 DATA COLLECTION .....                                   | 34   |
| Introduction.....   | 34   |
| Expert Interview .....                                    | 34   |
| Case Study 1 .....  | 39   |
| Case Study 2 .....  | 42   |
| Case Study 3 .....  | 45   |
| Case Study 4 .....  | 47   |
| Case Study 5 .....  | 49   |
| Case Study 6 .....  | 52   |
| Case Study 7 .....  | 54   |
| Case Study 8 .....  | 57   |
| Case Study 9 .....  | 60   |
| Case Study 10 .....                                       | 63   |

| CHAPTER                                       | Page |
|---|------|
| Case Study 11 .....                           | 68   |
| Case Study 12 .....                           | 70   |
| 5 DATA ANALYSIS .....                         | 74   |
| Introduction .....                            | 74   |
| Company Characteristics .....                 | 74   |
| Succession Timeline .....                     | 78   |
| Succession Planning .....                     | 77   |
| Management Transition .....                   | 83   |
| Ownership Transition .....                    | 85   |
| Successor Training and Mentoring .....        | 88   |
| Transition .....                              | 89   |
| Recommended Practices .....                   | 92   |
| Level of Success .....                        | 96   |
| 6 CONCLUSION .....                            | 100  |
| Summary .....                                 | 100  |
| Recommendation for Future Research .....      | 103  |
| Conclusion .....                              | 103  |
| REFERENCES .....                              | 105  |
| APPENDIX                                      |      |
| A RESEARCH PARTICIPANT EMAIL INVITATION ..... | 110  |
| B INTERVIEW QUESTIONS .....                   | 112  |

## LIST OF TABLES

| TABLE | Page  |
|-------|---|
| 2.1   | Studies in Kesner and Seborá’s Critical Review of Executive Succession Research by Subcategory and Decade ..... 9                     |
| 2.2   | Top Ten Recommended Practices for Succession Planning..... 15   |
| 2.3   | Articles Relating to Succession Planning Found in Targeted Journals.....24  |
| 2.4   | Construction Articles Found by Year Published..... 24   |
| 2.5   | Comparison of Recommended Practices Found in Literature ..... 26  |
| 3.1   | Level of Success Analysis Questions with Quantitative Score ..... 33  |
| 4.1   | Three Filters for Evaluating Executives Sum and Substance ..... 37  |
| 5.1   | Company Ownership Type before the Leadership Transition ..... 78  |
| 5.2   | Leading Causes for a Predecessor to Begin Planning Retirement.... 80  |
| 5.3   | Quality of Plan Analysis ..... 81   |
| 5.4   | Leading Causes for a Predecessor to Begin Planning Retirement that Scored Lower than Fifty Percent on Their Quality of Plan..... 82   |
| 5.5   | Leading Causes for a Predecessor to Begin Planning Retirement that Scored Higher than Fifty Percent on Their Quality of Plan ..... 82 |
| 5.6   | Ratio of Family Companies with Interested Children Working Inside Company ..... 83  |
| 5.7   | Previous Job Titles of Non-Children Successors ..... 84   |
| 5.8   | Company Ownership Type after the Leadership Transition ..... 86   |

| TABLE  | Page |
|--|------|
| 5.9 Method of Ownership Transfer .....   | 87   |
| 5.10 Method of Selling Ownership.....  | 88   |
| 5.11 Ratio of Predecessors that Disengaged after Transition .....                      | 90   |
| 5.12 Responsibilities of Predecessors after Transition.....                            | 90   |
| 5.13 Disagreement between Predecessors and Successors after<br>Transition. . . . .     | 91   |
| 5.14 Ratio of Companies that Lost Senior Management the Year after<br>Transition ..... | 91   |
| 5.15 Reasons that Senior Management Left the Year after Transition .....               | 92   |
| 5.16 Top Ten Recommended Practices Case Study Analysis .....                           | 93   |
| 5.17 Level of Success Analysis .....   | 97   |



## LIST OF FIGURES

| FIGURE |  | Page |
|--------|--|------|
| 5.1    | Geographical Locations of Case Studies .....   | 75   |
| 5.2    | Leadership Transition to Age of Company .....  | 76   |
| 5.3    | Geographical Average Yearly Revenue to Number of Employees in<br>Eleven Case Studies ..... | 77   |
| 5.4    | Leadership Transition Time Periods.....  | 79   |
| 5.5    | Correlation of Recommended practices to Quality of Plan .....                              | 95   |
| 5.6    | Correlation of Level of Success to Quality of Plan.....                                    | 98   |
| 5.7    | Correlation of Level of Success to Recommended practices .....                             | 99   |

## Chapter 1

### INTRODUCTION

#### **Introduction**

People serve as the most vital resource for many industries, and the construction industry is no exception. The construction industry relies on individuals from the bottom up but none are more important than the executives that establish and guide their companies (Yankov & Kleiner, 2001). These critical individual leaders are a scarce resource in today's construction industry, development of these leadership skills requires time, planning, and preparation (Toor & Ofori, 2008). Human resources such as potential leaders are even limited more in small family companies that make up the majority of the construction companies (Schrader, 2006). Many of these family companies today have an aging generation on the brink of retirement that has various levels of leadership responsibilities (Chavez, 2011). The succession of these leaders is an inevitable change that will impact many construction companies in the near future (Miller, 1993), proper succession planning is critical for their survival. He et al (2010) shows that an immediate impact most often negative is involved with leadership transition in some way or another. 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). A construction company can proactively prepare themselves for their leadership transition and minimize the negative impacts that correlate with leadership

change, the research in this thesis looked to find these methods for effective succession planning in construction companies.

### **Succession Planning**

Sambrook (2005) defined succession planning as “the attempt to plan for the right number and quality of managers and key-skilled employees to cover retirement, death, serious illness or promotion, and any new positions which may be created in future organization plans”. Even though today’s definition of succession planning includes the organization’s attempt to prepare for transition of all management positions (Rothwell, 2010), the focus of this thesis will be solely towards the succession and preparation of the top position in a company.

The typical succession plan includes four phases (Sobol, et al, 2003):

1. Understand the vision of the company’s future and needs
2. Analyze and select the best candidate
3. Prepare a development plan for the candidate
4. Transition individuals into new position

Although these basic steps summarize succession planning in four steps, each company’s plan will be different in various degrees of complexities to minimize the impact of transition. Hadelman et al (2005) stated “Succession Plans are like fingerprints - no two are alike, and they leave an impression on everything they touch.” Research in succession planning has developed an abundant number of studies to understand the challenges that organizations have with succession planning.

## **Challenges in Succession Planning**

Although research has established the importance of proper succession planning (Leibman, Bruer & Maki, 1996), many firms continue to operate without a formal succession plan. A 2004 survey of 711 human resource managers found that although 80 percent of the managers believed that succession planning was critical, less than half of their companies had a succession plan in progress (Taylor & McGraw, 2004). Two other surveys found that few organizations have proper succession plans prepared to replace their leadership, a 2009 survey by RHR International and Chief Executive magazine found 40 percent of CEO's were not prepared for succession (Cairns, 2011), a 2011 study found that only 35 percent of thirteen hundred CEO executives had a succession plan (SFGate, 2011). The three studies show that half of companies are not prepared or are not currently preparing for leadership succession. Research has shown that executives are reluctant to plan for succession for multiple reasons such as: fear of retirement, fear of the unknown, fear of losing control, fear of death, lack of interests outside of work, and a strong sense of personal attachment to the company (Ibrahim, et al 2001; Handler & Kram, 1988).

Another challenge in succession planning comes with analyzing and selecting the correct successor for the company. Rothwell (2010) has stated that analyzing, selecting and developing the right candidate are a large part in succession planning if these steps are not made the likelihood that leadership transition will be successful decreases. The selection of an unprepared or inappropriate successor can create damaging impacts after leadership transition.

Dalton (2006), states that 40 percent of CEO's fail in their first 18 months. The challenges and difficulties of planning for succession should not be overlooked by a company or the owners if they desire the company's continuous success (He et al, 2010).

### **Succession Planning in the Construction Industry**

Past research has established the benefits of planning for succession but there is little research available to understand the unique attributes of leadership transition in construction companies. The researcher's literature review of the most prominent construction research journals provided little information that a construction company could apply for planning succession. Although human resources are the most critical resources in the construction industry (Yankov & Kleiner, 2001), research for maintaining and replacing these individuals has provided little assistance for the industry.

These human resources are more scarcely found in small family companies that make up the majority of the construction companies (Schrader, 2006). The smaller pool of individuals makes it more difficult to find a qualified leader, more likely the individuals selected as a successor in a company will require training and preparation to become a strong leader in the construction industry (Toor & Ofori, 2008).

Another challenge found with succession planning with family owned construction companies is how to transfer ownership to the new successor. If no heir apparent is available for a family owned business, selection of a successor will also include how ownership will transfer to the new successor. This transfer

of ownership proves to be difficult for many construction owners. Kirschner and Ungashick (2005), state that construction owners struggle with understanding their options for selling their company, how they will receive the estimated value of the company, and when planning should begin.

### **Problem Statement**

The transition of leadership is a critical point in a company's existence and many changes come from succession that not only effect the management directions of the company but often will change the ownership of the company (Schleifer & Badger, 2011). Planning for succession has been credited for minimizing the impacts that come from leadership transition in companies (Behn et al, 2005). Despite the growing interest of research done with leadership succession since the late fifties, little research is available to the construction industry on what drives effective succession planning in their industry (Kesner & Sebor, 1994). This lack of research creates a need for relevant studies that will assist a construction company effectively plan for succession of their executive leadership.

### **Research Objective**

The objective of this research is to develop a methodology that a construction company can follow to develop a quality succession plan. Included in the objective is to see the trends in construction leadership transitions and develop a typical succession timeline that can assist planning through the most

important phases of succession. The study will analyze findings to identify best methods for planning succession and prepare the predecessor and the successor for the transition.

### **Research Methodology Summary**

The methodology for achieving the researcher's objective began with capturing data in a personal interview with a professional consultant that has assisted various construction companies with succession planning. The researcher was able to capture data through personal interviews with twelve executives of construction companies that have recently experienced leadership transition. The researcher performed an analysis of the data collected from these twelve construction companies that varied in size, geographical location, ownership type, and age. The executive transitions in these twelve case studies were evaluated for success levels and analyzed for factors that lead to their success. These factors were used to develop a methodology that a construction company could use to plan and prepare for succession.

### **Research Scope and Limitations**

In order to collect the in these case studies an invitation to participate in the research was sent to members of the National Electrical Contractors Association (NECA), the largest electrical contractors association in the United States. A key assumption is that the electrical contractors interviewed provided a sufficient reflection of all trades included in the construction industry, this is also a limitation to the research data. Because the case studies were collected from volunteering participants it limited the research to companies that were willing to

share their experiences with succession, an assumption is made from the researcher that the majority of those that volunteered to interview had experienced a fairly positive succession.

### **Summary of Thesis**

This thesis documents the research and development of a methodology for construction companies to follow to effectively plan for succession of the executive leaders of the company. The summary of the thesis is as follows:

- Chapter 2 presents a literature review of research conducted on executive succession, planning for succession, recommended practices found in succession research, and succession research in the construction industry.
- Chapter 3 describes the methodology to collect the data from the twelve case studies presented in the thesis. This chapter also includes the data analyses that were conducted with the data collected from the case studies.
- Chapter 4 presents the data collected in the personal interviews of succession planning experts and the twelve construction executives that recently experienced leadership transition.
- Chapter 5 describes the results of the data analysis of the twelve case studies. Analysis of data include: correlation between successful factors found in succession practices, an average succession timeline, and trends in typical construction leadership transitions.
- Chapter 6 concludes the findings in the data analysis and finalizes the researcher's methodology for construction companies to effectively plan for succession.



## Chapter 2

### LITERATURE REVIEW

#### **Introduction**

This chapter covers the literature review of the existing research found in succession planning, it starts with the history of the past research that can be found on succession and how it has developed in the past six decades. It covers the distinguishing factors that influence succession and how it's impacted depending on the characteristics of the company. Best practices are found in a critical review of the existing research in succession a brief explanation of the best practices is also included. The chapter reviews the lack of succession research found specifically in the construction industry's journal publications. A comparison of the research in the different industries is also presented to demonstrate the lack of research available to the construction industry with succession planning.

#### **Succession Research History**

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". But, it was not until the late 1950's and early 1960's that research in Succession Planning developed from mere case studies to being tested and studied for hypothesis confirmation (Kesner & Sehora, 1994). Oscar Grusky is acknowledged for his early recognition of the lack of research in 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). “

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).

### **Areas of Succession Research Focus**

Kesner and Sebora’s (1994) critical review shows the variety of research that has been done in succession, Table 2.1 presents the number of studies that were found in their critical review of succession by subcategory.

Table 2.1

*Studies in Kesner and Sebora’s Critical Review of Executive Succession Research by Subcategory and Decade*

| <b>Subcategory</b>                              | <b>1960's</b> | <b>1970's</b> | <b>1980's</b> | <b>1990-1994</b> | <b>Total</b> |
|---|---------------|---------------|---------------|------------------|--------------|
| Successor Origin                                | 3             | 13            | 11            | 7                | 34           |
| Organization Size and Succession Rate           | 7             |               |               |                  | 19           |
| Succession Rate and Post Succession Performance | 3             | 9             |               |                  | 18           |
| Succession Contingencies                        | 6             |               |               |                  | 17           |
| Succession and Successor Characteristics        |               | 12            |               |                  | 15           |
| Succession and Boards                           |               | 9             | 7             | 2                | 15           |

|   |           |           |           |           |            |
|---|-----------|-----------|-----------|-----------|------------|
| Succession Frameworks and Typologies                            |           | 4         |           |           | 12         |
| Event studies of Stock Market Reaction to Top Management Change |           |           | 14        | 3         | 12         |
| Succession Planning   |           |           | 10        | 1         | 11         |
| Succession Process  |           |           | 14        | 1         | 8          |
| Succession consequences   |           |           | 11        | 4         | 7          |
| Frequency studies   |           |           | 18        | 1         | 6          |
| Matching Mangers  |           |           | 8         |           | 4          |
| Total   | <b>19</b> | <b>47</b> | <b>93</b> | <b>19</b> | <b>178</b> |

The two major areas of research that Kesner and Sebor found in the research involved the origin and selection of the successor and how often succession occurs.

*Successor Origin* was found to be the most studied topic in Kesner and Sebor'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 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 is less leadership transitions in high performing companies because of the stability found with the leaders. Kesner and Sebor (1994) also found that less leadership transitions occurred in firms where: the employee's shared similar

beliefs, the president held more ownership, and the president had more control of 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 or the principal owner had the lowest average of 14 years.

### **Family and Non-Family Owned Differences**

A large difference in succession is seen 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). Non-family owned companies such as: privately owned, publically owned and employee owned companies make up the lower percentage of companies in the United States. The pool of candidates that a non-family firm has to select potential successors is larger and usually encompasses candidates that 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 in 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 30 to 50 percent of companies are not preparing for leadership transition but most than 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 presents the four main 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 to 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 to plan for succession.
- Executives that identify only with the business are more resistant to plan for succession than an executive that can distance themselves from the business.
- Executives who do not delegate responsibilities within the company create resistance for the executive to plan for succession.
- Executives that fear aging, retirement, and death are more resistant to plan for succession than an executive that sees opportunity in retirement.
- Executives that avoid technical advice and consultation are more resistant to plan for succession than an executive that seeks consultation.

### *Executive group level*

- Communication breakdown and dishonesty between the individuals in the group creates resistance to succession planning.
- Lack of trust between the individuals in 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 in the group creates resistance to succession planning.
- Uneven authority between the individuals in the group creates resistance to succession planning.
- Conflicts amongst 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 amongst 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 properly value the company (Kirschner & Ungashick, 2005).

## **Critical Review of Recommended Practices in Succession Planning**

An extensive literature 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 in several highly acclaimed business publications by searching keywords related to succession planning. Each article found was studied for best practices relating to succession. All best practices suggested in the article that related to improving a company's transition of leadership was recorded and tracked to determine the recurrence of best practices amongst researchers.

In total 70 articles related to succession planning were found and analyzed for best practices. The top ten best practices that were recognized to be consistent among the articles are listed in Table 2.2, the table lists the best practices in order of recommendation frequency.

Table 2.2

### *Top Ten Recommended Practices for Succession Planning*

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



## **Top Ten Recommended Practices in Succession Planning**

A brief summary of each of the best practices found are presented in order of highest recommended to least recommended:

### *1. Prepare a succession plan*

Amongst all of the recommended practices found within the articles, the only practice consistently found in 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: before transition, during transition 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 assure 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 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) provide 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 all 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 into the plan so there is ownership and acceptance 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 too 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 in 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 often 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; Bernthall & Wellins, 2006). After transition performance metrics can bring transparency to the level of success of the successor, Dalton (2006) describes that 40 percent of CEO's fail in the first 18 months after transition, the necessity of a plan with measurable metrics is crucial to evaluate the first years 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 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 of 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 that does not follow this plan is in risk of offending and losing the successor to another company (Sharma et al, 2003a).

### **Lack of Construction Industry Research**

With 95 percent of the construction companies being family owned (Schrader, 2006) and 30 percent of family businesses not surviving to the second generation (Beckhard & Dyer, 1983), a high importance should be placed in preparing for leadership transition within a construction company. Kesner and Sebor's (1994) critical review of 178 articles found a 250 percent increase in research pieces available on executive succession planning from 1970 to 1990. However, none of the 178 articles that were included in their review were found to focus specifically on the construction industry. The following literature review was performed to find literature in the construction industry.

A critical review of the highest graded journals was conducted by the researcher to find industry studies on succession planning. The selection of the journals to be reviewed was done through the recommendation of the research done by Chau (1997), which found the following several journals to be the highest

quality journals for the construction industry: *Construction Management and Economics (CME)*, the *ASCE Journal of Construction Engineering and Management (CEM)*, *Engineering Construction and Architectural Management*, the *ASCE Journal of Management in Engineering*, the *International Journal of Project Management*, *Automation in Construction*, and *Building Research and Information (BRI)*. The *ASCE Journal Leadership and Management in Engineering* was also included in the search due to the emphasis in administration practices. Using the journal online search engines the titles, keywords and abstracts were scanned using the following keywords: succession, succession planning, transition, succeed, leadership change, successor, predecessor, and heir. In total 281 articles contained at least one of the keywords each with a different level of relation to succession planning with management.

A review of the articles was performed by the author to filter the 281 articles found. First the articles titles and abstracts were analyzed to determine whether they pertained to succession, articles that contained key words but were irrelevant to succession planning were eliminated. The remaining articles were read to determine their focus on succession planning. A large distinction between the journal articles that was filtered was if the article covered “Leadership Succession” or “Leadership Development”; many articles were found to research the development of leaders but did not focus on planning for executive succession, these articles were also removed.

Out of 281 articles, the majority of the articles were found to be unrelated to succession with leadership, after filtering these articles only six were found to



be related to preparing construction companies for succession. Table 2.3 provides the number of articles for each publication searched. ASCEs' Journal of Management in Engineering and Leadership and Management in Engineering provided all of the articles found specifically on succession planning.

Table 2.3

*Articles Relating to Succession Planning Found in Targeted Journals*

| <b>Journal Title</b>                                  | <b>Number of Articles</b> |
|---|---------------------------|
| Automation in Construction                            | 0                         |
| Building Research and Information                     | 0                         |
| Construction Management and Economics                 | 0                         |
| Engineering Construction and Architectural Management | 0                         |
| International Journal of Project Management           | 0                         |
| Journal of Construction Engineering and Management    | 0                         |
| Journal of Management in Engineering                  | 4                         |
| Leadership and Management in Engineering              | 2                         |

Table 2.4 shows the number of articles published by periods of time on succession planning in the construction industry, no articles were found prior to 1990. Unlike the vast growth Kesner and Sehora (1994) found in succession research in their critical review, the construction industry has seen minimum research and has seen a decrease in research done on succession planning.

Table 2.4

*Construction Articles Found by Year Published*

| <b>Years</b> | <b>Number of Articles</b> |
|--------------|---------------------------|
| 1990-1995    | 2                         |
| 1996-2000    | 2                         |
| 2001-2005    | 2                         |
| 2006-2011    | 0                         |

The total of 6 articles listed on Table 2.1 referenced methods in which construction companies can prepare the new successor for transition, however two clear divisions were found within the articles:

1. There are two focuses on succession planning of research within the articles; management succession and ownership succession.

*Management Succession Research:* Research in the transition of leadership and management styles involved with the predecessor and successor.

*Ownership Succession Research:* Research in the transition of ownership from one party to another.

2. The second distinction found is how the knowledge or data that the researchers gathered can be categorized into two different data collection sources, empirical observation or by case study.

*Empirical Observation:* Data collected through years of experience that the researcher has with succession planning with construction organizations.

*Case Study:* Data collected through observation of a leadership transition in a construction company.

### **Comparison of Recommended Practices in Construction Research**

In comparison, the minimum literature that is available to the construction industry pails in contrast to the recommendations of best practices that are found in outside literature, Table 2.5 shows the percent of times that the construction literature recommends the best practices found in the literature review.

Table 2.5

*Comparison of Recommended Practices Found in Literature Review*

| #  | Recommended Practice                                    | Recommended percent within articles outside of construction | Construction articles recommended percent within articles |
|----|---|---|---|
| 1  | Prepare a succession plan                               | 100 %   | 67 %  |
| 2  | Analyze and select quality candidates                   | 73 %  | 83 %  |
| 3  | Prepare a plan to develop successor                     | 64 %  | 0 %   |
| 4  | Prepare well defined/communicated responsibilities      | 50 %  | 0 %   |
| 5  | Secure senior level support                             | 50 %  | 0 %   |
| 6  | High level of communication                             | 50 %  | 17 %  |
| 7  | Talent management processes in company                  | 41 %  | 50 %  |
| 8  | Capture the vision of company                           | 36 %  | 33 %  |
| 9  | Measure performance before and/or after succession      | 36 %  | 17 %  |
| 10 | Agreed responsibilities of predecessor after transition | 36 %  | 17 %  |

**Conclusion**

In conclusion, the recommended practices found demonstrate that succession planning is not an individual activity but is an ongoing process that requires continuous planning and coordinating for development. Succession planning is essential to the legacy of a company, but numerous companies continue to fail to plan for transition which leads to crippling impacts to the

company. Because of the characteristics of construction companies succession planning is highly recommended to prepare for executive transitions. The top ten recommended practices provide a foundation of the necessary steps that need to be included in succession planning. Little research specifically with the succession planning in the construction industry has been developed.

## Chapter 3

### METHODOLOGY

#### **Introduction**

This chapter discusses the methodology that the researcher followed to gather the data that was used to analyze trends and patterns in construction companies with succession planning. Through the support of volunteers in a national construction association twelve case studies of contractors planning for succession were developed. A construction professional that has helped multiple construction company's transition between leadership helped the researcher develop the interview that was held with the volunteering participants.

#### **Data Collection**

Kesner and Seborá recommended that further research be performed in different types of industries to fill research gaps(1994), research such as case studies analysis provide valuable data for individual industries. To gather case studies from the construction industry the researcher looked to the assistance of a contractors association. The National Electrical Contractors Association (NECA) is the largest electrical contractors association in the United States and its affiliated research foundation called ELECTRI International agreed to provide support with the research. NECA has been supporting the electrical construction industry for over a century, its goal is to provide the association members support through education, research, and standards development. NECA developed the research partner ELECTRI International Council in 1989 to provide education for the most critical areas of research that is demanded from the industry. Succession

planning continues to be an area of research that the industry continues to request, past research includes a 2001 survey of 402 NECA members. The survey was developed to understand the NECA member's perception of the marketplace and their approach to leadership transition and succession (Electrical Contracting Foundation & CFG Business Solutions LLC, 2001). Recommendations from the detailed survey included further research and development of a methodology that can provide guidance for NECA members with leadership transition and succession.

With the support of ELECTRI International Council an invitation was sent to all 277 members of the association to participate in succession planning research via an email (see Appendix A) sent by the president of ELECTRI International Russell Alessi a response rate of 4.3 percent was achieved, a total of twelve contractors agreed to share their experience, succession plan, and lessons learned from the past leadership transition experienced.

Eminent Scholar Tom Schleifer, PhD, who has had experience with many leadership challenges in construction companies assistance was asked to establish a foundation of knowledge that should be collected in the interview process with the twelve contractors. His experience with succession planning is presented in chapter four of this thesis. With Dr. Schleifer's assistance the researcher was able to develop investigatory questions for significant information of the succession planning with the construction companies.

Well planned personal interviews are very effective for collecting qualitative data in field studies (Qu & Dumay, 2011). The interview questions

(see Appendix B) were prepared by the researcher to follow the timeline of the interviewee's succession experience. The majority of the questions were open-ended questions and were developed to gather detailed information that the interviewee remembered about their specific succession, this allowed more freedom in the interview for the interviewee to share significant experiences. Specific data points that the researcher desired were captured with direct questions.

Once the interview questions had been prepared a pilot interview was conducted with the first interviewee to further develop the order and structure of the interview questions. Personal interviews were scheduled with the respondents either in person or via phone communication. The interview was conducted in a semi-structured method in which the interviewer fashioned the predetermined questions to assure that necessary data was collected but at the same time the interviewee was relaxed and was able to communicate without restriction. The interviewer walked the interviewee through the timeline of the company's leadership transition and distinguished the practices that were used to prepare the successor. In-person interviews were captured with video and audio and phone conversations were recorded with audio to capture all data presented in the interview, both were recorded by the permission of the interviewee.

### **Data Analysis**

Once the interviews were completed the data collected with video and audio was transcribed to provide textual data for analysis. The data was analyzed by the researcher for trends and correlations found amongst the case studies.

Three specific analyses were conducted on the data to analyze the correlation between characteristics of the successions and the level of success that was experienced on the succession, these analysis were: quality of plan analysis, top ten recommended practices case study analysis, and level of success analysis.

### *Quality of Plan Analysis*

The quality of plan analysis was conducted on the case studies to find the level of effort that each case study spent on succession planning. Seven questions were determined by the researcher to demonstrate the level of planning that the companies performed, they were:

- If they formally compiled the plan for succession
- If they planned the succession
- If they followed the plan
- If they met regularly to review the plan
- If they captured the vision of the company in the plan
- If they prepared a plan to develop the successor
- If they hired a succession consultant

Using the data collected in the case studies the researcher was able to answer each polar question and assign a number one for yes and a number zero for no. The seven numerical answers were averaged to assign a quality of plan score, for example a case study that answered all seven questions with a yes response scored a quality of plan score of 100 percent, and a case study that answered four questions with a yes response scored a 57 percent. A 100 percent score represents



a very strong plan quality and a zero percent score represents a very poorly prepared plan.

### *Top Ten Recommended Practices Analysis*

The top ten recommended analysis was very similar to quality of plan analysis with polar questions of characteristics that were found in the case studies. The top ten recommended practices were found in the literature review and are explained in further detail in Chapter 2. From the interview the researcher was able to find if the contractor included the practice with their succession, they were:

- Prepare a succession plan
- Analyze and select quality candidates
- Prepare a plan to develop successor
- Prepare well defined/communicated responsibilities
- Secure senior level support
- High level of communication
- Talent management processes in company
- Capture the vision of company
- Measure performance before and/or after succession
- Agreed responsibilities of predecessor after transition

Using the data collected in the case studies the researcher was able to answer each polar question and assign a number one for yes and a number zero for no.

The ten numerical answers were summed to assign a quality of plan score, e.g. if a contractor performed all ten practices they scored ten on the analysis.

### *Level of Success Analysis*

The level of success analysis was also collected from the data in the case studies that pertained to the success of the leadership transition. The researcher collected qualitative data in the interview questions included in Table 3.1.

Table 3.1

#### *Level of Success Analysis Questions with Quantitative Score*

| <b>Level of Success Qualitative Question</b>                             | <b>Quantitative Score</b>                    |
|--|--|
| How well was the transition handled?                                     | Positive = 1<br>Average = .5<br>Negative = 0 |
| How well were the employee, client, bank, and bonding company reactions? | Positive = 1<br>Average = .5<br>Negative = 0 |
| Any conflicts between the predecessor and successor?                     | 0 = Yes<br>1 = No                            |
| Did the successor experience surprises or mistakes with transition?      | 0 = Yes<br>1 = No                            |
| How well did they plan for succession?<br>(Quality of plan score)        | 57% = 0.57                                   |

Along with the quality of plan score for each case study the qualitative responses to the answers above were assigned quantitative scores seen in Table 3.1 and were summed to calculate the level of success scores for each company, five representing a high success score and a zero representing a low success score.

### **Summary**

Twelve construction executives volunteered through ELECTRI International to assist the researcher, they were interviewed and the data collected in these interviews was developed into twelve cases studies. These cases studies were analyzed by the researcher for trends and correlations with effective succession planning in construction companies.

## Chapter 4

### DATA COLLECTION

#### **Introduction**

The researcher interviewed thirteen individuals that have empirical experience with leadership succession in construction companies and presents the collected data in this chapter. The first individual has multiple experiences with the difficulties involved with succession planning in construction companies. The last twelve individuals interviewed are Presidents of construction companies that have experienced leadership transition first hand. The data collected in the twelve interviews are presented as case studies and represent their experience with planning for leadership change.

#### **Expert Interview**

Tom Schleifer is an Eminent Scholar at the Del Webb School of Construction at Arizona State University, he agreed to interview with the researcher to discuss his experience with succession planning with construction companies. Dr. Schleifer has 47 years of experience in the construction field and holds a Ph.D. in Construction Management from Heriot-Watt University. With his experience he has been able to help many financially distressed companies improve and become productive, he has also been a consultant for various construction companies during the transition of their leadership. The following is the data collected from the interview.

Planning for succession is critical in Dr. Schleifer's opinion and he states that following a well thought out plan is always better than following instincts. An

organization that puts effort into planning will reduce the important decisions during the year, because the strategic, policy, and consequential decisions are thoroughly thought out and made at annual planning sessions and not during day to day operations. Dr. Schleifer recommended three tasks that need to be done during succession planning in construction companies. (1) First task involved with succession planning includes making important decisions on the company's future, the two most crucial decisions are who is going to own the company and who is going to manage the company. Deciding how and if ownership is going to transfer to the leaders successor varies from company to company while some will have an apparent heir to replace the predecessor others will not and will require that a temporary or non-related individual step in as the successor. Dr. Schleifer states that an individual that manages a company but does not hold ownership of the company can struggle due to the fact that the job is hard, requires long hours, and consumes a great amount of their effort while at the same time does not provide the job security that is included with ownership. An individual that is qualified for this position is just as capable of starting their individual construction company and benefit financially from complete ownership. The decision on who will replace the predecessor is very important because of the effort that is required from an individual and the ability to manage and lead the company they must have the entrepreneurial drive, vision, personality, and leadership skills combined with technical knowledge, dedication and willingness to work hard if the company is to continue to prosper. Although many companies have individuals that would be able to support a leader in areas

that they are inexperienced, if the leader does not have the expertise in the company's ability to make profit, the leader will become more dependent on their staff instead of the staff becoming dependent on him or her for leadership. Dr. Schleifer stated on the importance of selecting the right candidate, "This is a moving train that the owner or manager will be jumping onto with all of the existing complications of current employees and their expectations; existing clients and their perceptions; and bank, bonding company and subs/suppliers and their needs."

Two additional decisions owners need to understand are, which method of ownership transition has less tax consequences and whether ownership will be transferred to individuals that are not directly working with the company.

(2)The second task was capturing the predecessors talents and skills that he or she brought to the company which he referred as the "sum and substance" of the departing leader. He suggested involving the company's key individuals and to set apart one or two days to sit down and write out together the sum and substance of the leader. Dr. Schleifer broke down the sum and substance into three different filters which define the sum and substance of a leader shown in Table 4.1. Filter number one consists of what the predecessor does on a day to day operations level including: tasks, responsibilities, business processes that he implements, and what he does for the company that makes it run more efficiently and successfully. Many of these items found in the first filter have been institutionalized into the company and will remain part of the business practices even when the predecessor has left the company. This filter will encompass 10 to

20 percent of the sum and substance of the predecessor. Filter number two focuses on the talents or skills of the predecessor that are transferable but have not been institutionalized into the company. This sum and substance could be lost with the predecessor if the company does not capture it before they leave. This filter mainly regards relationships, they are the relationships that the predecessor has developed over the years of being in business and have brought the company success. The predecessor's relationships include: employees, clients, unions, banks, bonding companies, insurance companies, community leaders, and more. Also included in this filter are some unique talents that the predecessor might have that can be transferred to another individual before their departure. This filter encompasses 80 to 90 percent of the sum and substance of what makes a leader so important to the company. The third filter involves the unique skills and traits of the predecessor that cannot be institutionalized or transferred to the company, these are the unique abilities that one person might have that others can't develop from books or education. Examples of these are: the ability to naturally hire the right people, powerful leadership skills, keen business senses, ability to read between lines, "sixth sense", and more. These only encompass 8 to 12 percent of the sum and substance of a leader.

Table 4.1

*Three Filters for Evaluating Executives Sum and Substance*

| <b>Filter</b> | <b>Percent</b> | <b>Institutionalized</b> | <b>Transferable</b> | <b>Examples</b>   |
|---------------|----------------|--------------------------|---------------------|---|
| 1             | 10-20%         | Yes                      | Yes                 | Talents, work responsibilities, business processes            |
| 2             | 80-90%         | No                       | Yes                 | Personal relationships, unique skills that can be transferred |
| 3             | 8-12%          | No                       | No                  | People skills, keen business skills, "Sixth Sense"            |

Dr. Schleifer discussed the importance of understanding what the predecessor not only did for the company but to also understand what they meant to the company, by capturing the sum and substance of the leader with all three filters a company can better plan and prepare for the departure of the leader. Not all of the sum and substances will be transferable from the predecessor to the company, Dr. Schleifer pointed out it is one thing for the company to know what won't be transferred so they can compensate for the lose and it is another thing to not know what will be lost to the company and have to deal with it once the predecessor is gone. By gathering the sum and substance of the predecessor it will help the company develop the new leader, this correlates to the research done by Sambrook (2005) with passing information from the predecessor to successor.

(3)The third task that Dr. Schleifer spoke about to plan for succession, is preparing a development plan for the successor before they transition into the leadership role. Open discussion between the key individuals should be included in the evaluation of the successor and determine what should be included on the development plan. The development plan should correlate with the lost sum and substances of the predecessor to assure that new successor has the ability to step into the leadership position. A President/CEO of a construction company is responsible, directly or indirectly, for field operations, project management,

estimating, marketing and accounting/finance. They should have experience or education with these areas of the business and if they do not then they need to include training and education into their development plan. Not only should the development plans include the technical preparation that the leader must have but it also should include the relationships that the successor must begin to grow to assure good business standings with those inside and outside of the company.

### **Case Study 1**

The first case study that was collected was with Mark Fleming CEO and President of Corbins Electric out of Phoenix, Arizona. Corbins Electric was founded in Phoenix in 1975 and employ's on averages 300 individuals, annual revenues are in the 50 million dollar range, and they have offices in Phoenix and New Mexico. Mark has been in the CEO position since 2001 when the owner and founder Bill Corbin transferred ownership to Mark. The banking companies sparked the initial planning for succession when they began to ask Bill what his plan was for retirement due to his age and that he had recently had a scare with cancer but was able to fight it off. These questions from the bank began in 1993 eight years before the transition of leadership would take place. During the next seven to eight years Bill began to prepare for succession of leadership and ownership. Bill had one son that worked in the company and the rest of the family did not participate with the company, concerns that Bill's son didn't have the desire to take on the level of commitment and dedication convinced Bill that his son was not the right person to carry the company into the future. Mark Fleming had been with the company since 1986 and had worked his way up from a general



electrician to foreman to project manager to Bill's right hand man. He had opened the New Mexico office and had experienced success in the new region, he was appointed vice president. As the vice president of the company it was a natural choice for Bill to hand over the management of the company to Mark as he had the leadership and management experience needed, once this decision was made the planning and preparations for succession began.

During the next seven years Bill and Mark discussed frequently the strategic plan for the company and how the transition would occur. Bill remained hesitant to plan for ownership transition during the first several years of planning, but Mark's persistence and desire to prepare for the ownership transition finally helped Bill become comfortable with passing ownership of the company to Mark a year before the transition. In early 2000, Bill agreed to pass the majority of the ownership to Mark but desired to still hold a minority of ownership of the company and be involved with the company even after the transition of leadership. The CFO of the company also received a minor share of the ownership of the company during this transition. During the last year of preparing for the transition weekly lunch meetings were dedicated to the progress of the succession with the three individuals. Through the help of a consultant, a plan was prepared to transfer ownership by opening a new company in 2001 with any new work being assigned to the new company and everything that was already on the books staying in the old company. Eventually the old company finished its work, collected all the debts, paid all the debts and all remaining cash went to Bill. This

gave Mark the chance with fairly small cash on hand the ability to purchase ownership of the large company and for Bill to receive the value of the company.

Mark described the transition in Jan 2001 like flipping a switch, while signing the legal documents Mark described the moment. "I walked in as an employee for Bill and walked out with Bill working for me, that was a transition for both Bill and myself". In the preparations for the transition Bill agreed to assume the role as Founder and was involved mainly with the estimating group within the company. Although the employees were well prepared for the transition of the leadership they had complications with understanding who was in control after the transition. They understood the change with Mark and Bill's transition, but their respect and loyalty for Bill caused challenges whenever Bill disagreed with new leadership process that Mark proposed. During the four years that Bill remained with the company Mark and Bill had various disagreements on changes that Mark felt were needed even though Bill disagreed with them. In retrospect Mark felt that this could have been better planned so that employees were more prepared to step behind the new leadership styles that Mark felt necessary. Mark understood the difficulty that comes with handing over the company that had required such dedication and he admits that when it is his turn that he will have a difficult time releasing control. Outside of the confusion of different management the employees were well prepared for the transition of leadership as it was a natural fit for Mark to take over for Bill. The clients, banks and bonding companies all had positive reactions to the new leadership with Marks experience in the company and the fact that Bill was still part of the

company after the transition. In preparation for Mark's succession planning he has been mindful of looking for potential leaders that can progress through the company so that when he prepares for retirement he will have a group of candidates to select from to appoint his successor.

Additional lessons learned:

- Mark points out that the age difference was important with 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, Mark was 45 when he took over as the President.
- Defining the responsibilities of the predecessor, Bill staying on and being part of the company past the ownership transition was a real challenge for both of them because Bill was living through all the changes that Mark was making and it became stressful.
- Mark's biggest advice is to be cautious on both parts as the predecessor and successor, the person taking over has to understand what they are stepping into and really be prepared to manage that company.

## **Case Study 2**

The next interview was held with Brent Fatzinger Chief Financial Officer for Abbot Electric. Abbot Electric's headquarters are located in Canton, Ohio and was formed in 1978 by Jim Abbot, Abbots Electric employees around 90 individuals and has averaged 13 million dollars in revenue the past couple years. Family owned and operated since the formation of the company when Jim Abbot broke off and formed his own electrical company out of the back of his truck. Acquisition from other companies and consistent work has helped with the

growth of Abbot Electric. Jim's three sons and Brent who married Jim's daughter are the four individuals that received ownership when Jim retired in 2010. Mike Abbot the eldest son succeeded his father as president of the company and runs the field operation on all commercial work. The second eldest son, Steve Abbot is responsible for the Safety division of the company. Tony Abbot the youngest of the three sons is 13 years younger than the eldest and is fresh from college and is working as a project manager. Brent acts as the Chief Financial Officer and handles much of the administrative functions.

Jim Abbot started planning and transitioning in 2005 after attending a NECA conference and sitting in on a presentation on succession planning. They began working with a consultant to prepare them for succession and help the family throughout the transition. The eldest son Mike, was the clear successor to Jim as he had an electrical engineering degree and was on track to becoming a Professional Engineer and he had the most experience amongst the sons with the industry. Although Mike was the natural successor to Jim, defining the four individual roles and responsibilities was difficult to set in the beginning. The group worked with the consultant to fit each son and Brent into positions that worked well with the group, each individual found the right fit for them in the company through their experience. In place of a formal plan for the transition, the group worked with the consultant on succession similar to a project based plan. The consultant would come into the office quarterly to work with the group until he felt comfortable with the transition plan, once the plan was set the consultant visited biannually until the transition occurred. The consultant in the beginning set

the vision in where they wanted to be and how to get there, when the consultant would come in he would either meet individually or with the group to discuss the plan and the progress that was being made to the transition. One of the difficulties that Brent recognized in the transition was the difficulties of dealing with family relationships while planning the transition, competitiveness and familiar relationships amongst the brothers fostered disagreements that often are not seen in non-family businesses. For the most part Brent felt like the family acted very professional but he admits that the family personalities and competitiveness created some unprofessional discussions. A specific event that occurred which was difficult for assisting the transition was a group activity planned by the consultant to include the father and mother, the four individuals, and their spouses. Brent felt that this type of involvement with the family spouses created more problems than what it was worth as the spouses of the individuals may have had bias opinions to their spouses as they did not understand the whole story because they were not involved with the day-to-day operations. The family disputes caused frustration with the group during the transition period, especially Jim, this was the main reason that he understood the necessity of bringing a consultant in to help the family get pass all the below surface family issues.

Jim planned the ownership transition with the four individuals by slowly gifting the company off to them in equal shares to minimize the effect of releasing control of the business and avoiding one large tax cut. Ownership transfer was finalized in 2010 were the complete stock went equally to the four individuals, although Jim released ownership to his sons. Jim remains with the company with

minor project management and as a mentor assisting where needed careful to not overstep his authority. His plan is to gradually be involved less and less with the company. The preparation period was transparent to the employees and helped the employees prepare themselves for the transition of the new leadership. By doing this it helped them gain respect and to see that the four individuals desires for the company's success.

Additional lessons learned:

- Create a plan and work your way through it because it is not going to naturally happen on its own. Avoid taking anything personally with the family company and understand that the vision is set and work towards the group's goal.

### **Case Study 3**

Jim Smith, the president of Jordon Smith Electric located out of Huntington, West Virginia recently handed leadership over to his son Travis Smith. The company which was originally Jordon Electric was purchased and operated by Jordon Smith in 1999 and on average employs 50 to 65 individuals. Jim Smith started out as an apprentice electrician and worked his way up in a company called Kennedy Electric. Jim and two other partners purchased the company after the owner got ill with cancer and passed away. Different visions of the company's goals lead Jim to sell his shares of the company and purchase Jordon Electric and renamed it Jordon Smith Electric.

Eight years prior to transition, due to age, Jim began to look at options to transfer ownership of the company. Jim felt uncomfortable with selling the company at the proposed value that he was offered and looked to hand the

company over to his son Travis Smith. Jim's only daughter had a very good job in pharmacy so it made more sense for Travis to take over even though he had begun to establish a career in mechanical engineering. Travis was hesitant to return to the family business because of his earlier struggles with his relationship with his father and did not want to strain their relationship further. Travis finally agreed after three years of convincing by his father to come and work in the family business in 2005. Travis agreed to temporarily work for the company to find out if it would be a good fit or not, but after they discovered that their relationship had improved during the time while Travis was pursuing his own career they found that they worked very well together, Travis decided to make it a permanent move. Jim and Travis informally created a plan to prepare him to take over for his father, Travis worked for a year as a regular electrician and then moved into minor project management for the next three years. By working in the field and with the employees Travis was able to learn the trade and gain the respect of his coworkers, he soon began to manage projects and take over more responsibility from his father. Although Travis did not have the business experience that he felt was necessary, he believed that through his involvement with the multiple branches of the company and attending seminars that it better prepared himself for the management responsibilities that are required. In the summer of 2010, Travis took over the day to day operations from his father as vice president. Jim still remains president but is only involved when Travis needs advice from his father.

The father and son looked to the help of a consultant for the best methods to transfer ownership with the least amount of tax impact. They involved Travis's sister in the coordination so that she would receive equal compensation even though she would not be involved with the operations of the company. Jim and his wife both owned half of the company and decided to gift Travis the maximum one time gift that was tax free, Jim retained the remaining ownership of the company.

Jim and Travis prepared the employees for the transition during the time that Travis was involved with the day to day operations and they have adjusted positively to the transition. To minimize the impact of key employees leaving the company during the transition established an incentive to them that if they stayed on for five years they would be rewarded financially. They helped prepare clients, banks, and bonding companies by slowly working Travis up and into the management of the projects so they also were prepared for the transition.

#### Additional Lessons Learned

- 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. Also by getting involved outside the business with the union organizations, bank, and bonding companies allows you to establish relationships.

#### **Case Study 4**

B&D Industries located in Albuquerque, New Mexico were founded by the Uncle and Aunt of Troy Beall the current President and Owner. Bud and Dorothy founded the electrical contracting company in 1955 with the help of Troy



Beall's father. Current yearly revenues averages 40 to 60 million dollars and has five offices spread throughout New Mexico and Arizona.

Troy Bealls initial career path was to go to college to become a lawyer but his father and uncle convinced him to come into the family business and begin working as a foreman to learn the industry. His uncle Bud was diagnosed with rheumatoid arthritis and began to hinder his ability to work as the president of the company. Unexpectedly in 1982, Bud past away and left the company over to his two sons and nephew with no formal preparation. During the next ten years Troy and his two cousins struggled to manage the company as partners. Both Troy's cousins had been forced into the industry by their father and did not enjoy the industry and desired to get out, they showed interest in leaving the company to Troy who enjoyed the competition of the construction industry. Both of Troy's cousins decided to leave the industry and leave the management of the company to Troy, however, they intended to hold onto their company shares and continue to take profits from the company. Troy fundamentally disagreed with this and believed that if anyone was taking money out of the company they should be required to be working in the company so the company can grow. Troy expressed that buying out his family members became very difficult and required that attorneys got involved to resolve the issue, some of the buy outs became push outs causing further strain on family relations.

This transition was very difficult because of the lack of planning that was done before Bud passed away and because he left the company to his children who didn't desire to be in the industry. Troy's statement that "Every succession,

even from father to son is contentious because no one wants to give up power" is a big reason why he has already started working on his succession plan with his 26 year old son so to minimize the impact of leadership transition.

A accident sparked Troy to begin working seriously on a succession plan with his lawyers and accountants. After a year and a half of developing a succession plan that structures his company in case of emergency, Troy feels that he has put together a very successful plan for his departure, even though he has no near future plans to step down. His son, who is in line to take over a major part of his ownership is being prepared and mentored for management roles by Troy's top key individuals. Troy's biggest advice is to allow individuals to determine what roles and responsibilities they desire to obtain so they are not forced into a situation that they do not want to be in. His experience with his cousins being forced into a situation that they did not want to be in created a great amount of pain for those involved and Troy has never forgotten this.

### **Case Study 5**

Vic Salerno, current CEO of O'Connell Electric has held this role since 2006, employing over 500 employees and averaging 100 Million dollars in revenue a year O'Connell Electric is one of the fifty largest electrical companies in the United States. O'Connell Electric headquarters are located in Victor, New York and was founded in 1911 by John O'Connell. In 1968, Walter Parkes purchased O'Connell electric in his late thirties. Vic Salerno started working with O'Connell Electric in 1971 as an accountant and grew very close to Walter during the next thirty five years.

In 2006, Walter decided to retire due to age but was not prepared to hand the company over to one of his three children. Vic Salerno his chief financial officer was at the time 63 and was highly involved in the management of the company so it made sense to hand the leadership over to Vic until his eldest son and heir apparent Tom Parkes would be ready to assume the role of CEO. Walter and Vic prepared a plan for Vic to assume the role as CEO and mentor and train Tom to take over the large responsibilities that were required with the company. At this point Walter felt comfortable with Vic taking over because he had already been doing much of the executive work. But Vic did feel that he needed to get more involved with the community and with industry chapters to be able to build relationships outside of the company.

A specific time period was not distinguished for Vic to prepare Tom, Walter gave Vic the freedom to decide when he felt that Tom was ready and when he was prepared to step down as CEO. Tom Parkes has come up through the trade and has been mentored on many of the responsibilities that are required as a CEO and is currently operating as the Chief Operating Officer. Vic's currently 67 years old and feels that he has another four years in him before he is ready to step down as the CEO. He meets twice a month with Tom to discuss the issues involved with management which he stated is mainly working with people issues. Vic believes that Tom technically is ready to take over for him but one of the ways that Vic has prepared Tom to take over for him has been to get him involved more with the community and mentoring future leaders in the company, Tom is now serving on

the Board of Directors with the Rochester YMCA and is also a mentor to developing employees with O'Connell Electric.

Currently Tom is the company's biggest money maker and the expectations are apparent in the company that those that produce will be rewarded and selected for leadership responsibilities in the company. Tom is already looking for a successor for himself within the organization, a large area in which the O'Connell Company measures the success of their employees is by their work ethic and their ability to be proactive and win future work.

Although three out of the six of the stake holders are family, O'Connell has established itself as not just a family business, although Tom was the heir apparent for Walter there remained an expectation for Tom to work hard for the company. Vic is one of the six stake holders and plans to transfer his ownership when he is no longer working with the company as the CEO or on the Board of Directors. Buy sell agreements have been established with the company for over twenty years and requires that the stake holders be involved with the company and disallows them from selling their ownership to an outside company.

Additional lessons learned:

- Understand how to transfer the ownership is critical, especially if you have personal money tied up with the company's performance it is critical to assure that you have the right successor.

## Case Study 6

Rex Ferry is the current CEO of Valley Electrical Consolidated (VEC) and was founded in 1975 by Michael Russell in Youngstown, Ohio. VEC has grown from employing only 30 individuals in 1990 to employing 350 workers in 2011 and has annual revenue of 80 million dollars. Rex purchased the company from the founder Michael Russell and has been the company CEO since 1990.

Michael Russell founded the company in 1975 and by the late eighties began planning for retirement. Michael's father had passed away in his fifties and was one of the leading factors that influenced Michael to retire in his fifties. Michael had two sons and two daughters all four of them worked in the family business, Michael was a very commanding and authoritarian father which was in Rex's opinion one of the reasons that none of his children wanted to continue in the family business. Michael really desired that his eldest son take over the business but his son's lack of interest pulled him out of the family business to follow his own life interests. Before 1990, Rex had 16 years of experience in the electrical field and had worked his way up from foreman to superintendent to project management with Valley Electric. As Michael looked for options for his company Rex had shown interest in getting out of the field and to hold ownership of an electrical company. Rex came to Michael to buy the company and in 1987 they made the decision to sale the company to Rex and that he would take over the operations of the company.

Rex had not received any college education or business management training and gained his business knowledge from the "school of hard knocks" as

he described it. For the next three years Michael mentored and helped prepare Rex by introducing him to the business aspect of the company and establishing relations with the parties involved with the industry such as the banking and bonding companies. To transfer ownership they used the money that was built up in the company to pay Michael, this left the company with very little money and a small line of credit that Rex had. This period of time was extremely stressful for Rex who had just turned 40 and was a single father. In retrospect Rex felt that with better preparation this could have been avoided and a better method could have been used. Rex's lack of experience with the financial part of the business lead him to hire a financial controller to manage the company's finances which gave him the ability to focus on the operational side of the company.

Rex had adopted the controlling leadership style that Michael had while boss and soon found the issues that came with trying to control everything that happened in the company. Thinking that he could work his way out of anything, he recognized that he was working himself harder than the employees surrounding him and quickly learned the importance of empowering through delegation and following up with his employees. Many of the employees did not fit into this new environment and only three individuals from the original company remain with VEC today, but Rex attributes this ability to empower his employees to one of the keys of success for his company today. Through his experience with his past succession and his ability to empower his employees Rex has been able to make succession planning important for his future retirement.

Due to the growth and the size of VEC, Rex hired a consultant and has been preparing his own succession plan for the last six years to assure a smooth transition when he decides to step down. Although Rex has over twenty family members involved with the company (two of them daughters) he selected a non-related individual to be his successor, which caused strain on the family but Rex still remains confident in his decision as he believes this individual has the necessary abilities to lead the company successfully into the future. During this time of transition he has been able to hand over the day-to-day operations to Chris Jaskiewicz and now considers himself semi-retired even though he still has an office in the company. Rex sees the benefit that Chris has with a mentor that will allow him to make his own mistakes but won't let him fall over the edge.

### **Case Study 7**

Edward T. McPhee, known as Ted, founded McPhee Limited an Electrical contracting company in 1973 in Farmington, Connecticut. Ted's company saw great growth in the New England area and grew to employ over 300 employees by 1999. Ted decision to prepare a succession plan and hand the company over to his eldest son has created a smooth transition and has allowed the company to double their growth and employ over 600 in 2011.

While Ted was in his fifties he started thinking about what he would do with his company that he had built up for almost twenty years, four of his five were children involved in the electrical industry and he wanted to be able to hand it over to his family without any harsh feelings coming between the family. While attending a NECA convention in Chicago he attended a succession planning

meeting conducted by a professional consultant that had helped many family firms plan for succession. Ted was so impressed by the consultant that he hired him and had him come out to his offices in Connecticut to help him prepare a succession plan. Ted remembers that the consultant started right off with feeling out the company and what the company's vision was for the future. He interviewed everyone in the family and the key employees in the company to find if the vision of the company aligned with those that were involved and to see everyone's viewpoint on what should happen with the company. From these interviews the consultant came up with a plan that required multiple decisions for Ted on how he would transfer both the leadership and ownership of the company. This plan took one year to establish and once they finally completed the plan they presented it to their attorneys and to the banks who were very impressed with their plan.

One of the decisions that Ted had to make was who would take over the company. He had a handful of key individuals that were qualified for the position three of them were his sons, his eldest son Michael had an electrical engineering degree like Ted and an MBA, his middle son was involved with the company but did not show as much interest in the industry like his two brothers he had worked in the estimating and warehouse departments, his youngest son Marcus a business grad had shown great worth to the McPhee company and was very involved with some of the most successful projects in the early nineties, all three had grown up in the industry working with their father. Ted also had key employees that were not family that brought great value to McPhee Limited, but it was Ted's desire to



leave the company in the family. Michael at the time was working with an electrical company in California gaining experience in the industry outside the family company. When Ted finally made his decision for Michael to transition into his position, Michael returned to McPhee Limited and started preparing to transition to the executive position. Ted decided to give ownership of the company to his two sons Michael and Marcus which had been mainly involved with the company, this caused friction with some in the family on this decision but it has shown to be the correct decision for the family.

They planned to transfer ownership by creating a new company in the two sons name and slowly handed the work over to the new business similar to Corbins Electric. This also worked to prepare the clients and the employees for the transition, Ted's stated "I told my client's number one what I was doing and we just gradually moved all the employees from my business to the kids business and it turned out that the customers were very happy that we were continuing the business and that we were going to have the same people. All the employees were delighted it was so smooth, you didn't even know it happened". In place of giving ownership to the company Ted financially gifted his three other children due to his beliefs that if the siblings all owned portions of the company that it would cause tension and dysfunction within the company.

There wasn't a certain date planned for the transition and it slowly happened in 1999 when Ted appointed Michael and Marcus to take over operations of the company and he moved out of his office. Michael moved into his office as the president and Marcus was appointed vice president. Ted's initial

move to another office within the building was in hopes that the company would see the transition and would react according to the change in management. Ted soon learned that this was not enough and that company employees still came to him for questions instead of going to his sons so he decided to move his office out of the building to decrease confliction with his son's decisions. For the next two years he remained with the company solely as a mentor for his two sons and would assist them with any questions or strategic planning. Finally in 2001, Ted felt comfortable enough to retire and leave the operations of the company to his two sons. Michael and Marcus since have doubled the business that they do from the time that they took the company over from their father, crediting the successful transition of leadership to their success.

### **Case Study 8**

John Colson currently is the executive chairman for Quanta Services, which provides electrical services nationally, it's currently a SMP 500 company and has the third largest fleets in the nation. Located in Houston, Texas, it employs over 14,000 individuals and it experienced revenues of 4.5 billion dollars last year. John Colson served as CEO from the inception of the company in 1997 when it was formed from the merger of four private companies until he handed over the CEO position in 2011. John Colson previously owned PAR Electric, one of the four companies that merged to form Quanta Services and has experienced the transition of leadership in a smaller family owned company and the leadership transition in a large corporation.

PAR Electric was established in 1954 in Kansas City, Missouri. John Colson started working with the company in 1971 after he had graduated from college and had returned from two years in the United States Military Service. He would remain with the same company for 27 years and purchased the company nine years after starting out with the company. In 1979 the owner of the company due to age and the fact that he did not have any kids in the company to take over the business approached John to buy his company. John agreed to buy the company and for the next year worked on a buy-sell agreement that would transfer 50 percent of the business automatically and the remaining 50 percent would be paid off over the years by the company. Shortly after the buy-sell agreement was signed and the transition took place in 1980, the value of the company increased dramatically fortunately, due to the sound buy-sell agreement there was very little questions on what was owed for the company even with the increased value. John was 42 years old when he took over as the owner and president of the company, his predecessor disengaged from the operations of the company but stayed on with the company as a figure head until the company was able to completely buy him out of the company.

Then in 1997 PAR Electric merged with three other private businesses to form Quanta Services and John was elected to serve as the CEO. Quanta Services became public in 1998 and stocks became available on the New York Stock Exchange under the symbol PWR. John's initial plans were to only serve for three years and then to step down as CEO but it did not go as plan, due to the difficulty it was to find a replacement CEO for John. Initially John and the Board thought

that bringing in a well educated outsider would be the answer to finding top CEO, they hired an external successor to come in and operate as the Chief Operating Officer for two years to see if he would be the right fit this proved to be fruitless. After three outside individuals failed to fit the company's vision for a replacement they decided to look within the company.

In 2008, they decided to promote Jim O'Neil from within the company to act as the COO for two and a half years in preparation for him to take over as CEO. Although Jim did not have the Ivy League education like the other candidates he had one of the most important characteristics that the board was looking for which was the leadership personality that the employees respected. Jim had only been with the company and the electrical industry since 1999 but his past experience in the construction industry was sufficient experience for him to show leadership within the company. John and Jim met weekly to prepare the succession plan for the transition and spoke daily on the operations of the company. They developed a plan for Jim to prepare himself which included public speaking courses to help him with his communications to both his employees and to the stock holders, a personal coach helped him prepare himself with his appearance such as dress and health so that he looked the part.

In May of 2011, John transitioned out of the CEO position and into the executive chair position and Jim transition into the CEO position which has been very smooth in John's opinion. Although John remains working with the company his new roles and responsibilities as the executive chair are well known with the employees, they know that Jim is now in charge of the operations of the company.

This was very important for John to communicate to all the employees even with those that he has been working with for thirty years. Jim and John agree on 99 percent of the decisions that need to be made, but Jim knows that it is now his responsibility to make the final decision even if the two disagree.

Additional lessons learned:

- Have a succession plan in place for everyone and to make sure that talent management process are in place so that individuals can be ready to take over positions within the company, especially in times of emergencies.
- Business owners that 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 company. John has seen this benefit many companies and their employees when they don't have the obvious successor.

### **Case Study 9**

Divane Bros is an electrical contracting firm located in Franklin Park, Illinois and is currently headed by their President Dan Divane. Divane Bros was founded in 1920 by Dan's grandfather and his two brothers. The management of the company has been passed down two generations in the Divane family. Before taking over management Dan's father and uncle William Divane owned and managed the company, they had taken over management in 1967 but when Dan's father passed away in 1972 his uncle William became the sole owner of Divane Bros Electric. In 1992, William initiated succession planning to assure that he would get the money out of the company before he retired.

None of William's children were interested in or worked for the company so he had to look at those that were involved with the company one of them being

his nephew Dan. Dan had grown up with the company and it was the only company that he had ever wanted to work for, he worked at Divane Bros through college and started out doing all the “dirty” jobs that nobody wanted to do. From 1981 to 1986 he worked his way up to assistant project manager, from 1986 to 1997 he worked as a project manager, and in 1997 was promoted to vice president. Although Dan had a great amount of experience in the company he was not the only candidate that Williams had to select from as his successor, three other individuals were analyzed for the position of president. One was a project manager that had ten more years experience than Dan and the VP that Dan had replaced had two children within the company that were also being analyzed for the top position. The older project manager decided that he did not want to take over the President responsibilities and would rather stay as a Project Manager. In 1999 William decided to have Dan succeed him as the next president of the company, largely due to the success that Dan had experienced in his career and the opportunities that he had brought to the company.

Before selecting Dan as the successor William had prepared a plan for how he would transfer ownership of the company over to the employees and how Dan would take over the responsibilities of management but this plan did not include training that Dan needed to have to assume the leadership responsibilities. Dan said he prepared himself mainly through on the job training, which he confessed created many surprises with his new responsibilities that were included with the top position. Finally in 2002, Dan took over the day to day operations, looking back at his preparation time he wishes he could have received more

guidance on how to deal with people and their issues because it takes up a majority of his time now as President.

Back in 1992, William wanted to make sure that he would be able to get his money out of the company by the time he went to retire he began researching, he decided to form a ESOP and break up ownership shares and to sale the shares of his ownership to the employees of the company. The group decided on how individuals could enter the step program to become a partner and own shares of the company, the program require that an individual be somewhere in their thirties or forties and to be employed and committed to Divane Brothers. The individual is required to take out a loan backed by the company for the initial investment, which was paid to William. They would then receive a percentage of ownership and their profits were used to pay off the loan and to purchase additional stock. This process usually takes ten years to complete before the individual becomes a fully vested partner. This process has been carried out for almost twenty years, with ten individuals now considered partners of Divane Brothers. This has worked out very well for the company breaking ownership of the company up to those that are involved with the company assuring that they all that the company succeeds. Although ownership is broken up amongst the employees Dan as the President is responsible to manage the day-to-day operations and be the leaders of the company.

Additional lessons learned:

- Prepare a solid succession plan by preparing in advance to assure that it includes the right steps for your company and don't be afraid to ask for advice from the experts even if you have to pay for the advice.
- Find the right people for the position even if they are outside of your family, be mindful of the pressures that is put on kin to take over the company in case they do not have the desire to run the company.

### **Case Study 10**

Brad Weir President and CEO of Kelso Burnett Company is one of the nine presidents that have managed the company in its history that spans over one hundred years. Founded in 1906 in Chicago, two electricians James Kelso and Olli Burnett decided to go off on their own and build a company that has grown in the last century to average 80 million dollars in revenue and employ over 500 individuals today. The company was operated by five different presidents and owned by multiple partners during the first 72 years of operations, then in 1980 Kelso-Burnett became one of the first electrical contracting companies in the nation to become an Employee Stock Ownership Plan (ESOP). During the 31 years of operating as an ESOP they have been able to learn a lot on succession planning and talent management to prepare their future leaders.

John McLaughlin was the last president of the company to hold the majority of ownership and was the individual that sparked the transition of the company to becoming an ESOP. While he was structuring how the employees would be able to purchase shares of the company he appointed a successor to be



his vice president to learn what was needed to become president. Once John felt that he was ready to step aside of the day to day operations he stepped aside as CEO and promoted his VP to president to run the day to day operations of the company. During the next two presidents they decided that this was a very effective way of being able to appoint a successor, train the successor, and then to step aside and allow the predecessor to take over so they implement this process today. Once a president decides to step down from the day to day operations of the company then he steps aside as the CEO and the vice president becomes the new president, once the new president is appointed they are responsible to analyze and select a candidate that they feel will be a good successor for them. Usually the CEO will stay on with the company until the president feels comfortable with selecting a successor, and then once a vice president is selected the CEO can retire. So they always have at least two individuals in the Executive positions, always a senior and junior partner of the company, either a CEO and President combo or a President and Vice President combo. Kelso-Burnett feels that they always find the best successor to take over the operations of the company because they have a larger pool of candidates and never have to endure an incompetent heir apparent like a family company might experience. They also feel that the lack of nepotism in the company motivates their employees to work up the company ladder giving them a chance to become the president of the company, which is exactly how Brad Weir was able to rise up to become the president of Kelso-Burnett.

Brad started his career as a secondary teacher after he graduated college to save up to go to law school, but when his father pleaded for him to come take over the family electrical company he decided to change his plans. Brad started as an apprentice but before he was able to finish his apprentice his father sold the family company to Kelso-Burnett. As frustrating as that was, he was given a good opportunity at Kelso-Burnett to manage some very good projects in a remote office in Lake Coney, Chicago. Brad experienced great success in this region and gained a lot of good relationships with the unions and looked to start an electrical company. Knowing his capabilities the company offered him a job as a project manager on a project in downtown Chicago which enticed Brad to stay on with the company. Two years turned into thirteen years and Brad ended up becoming the branch manager and started a new low-voltage division in the company. At this point the president of the company was Jim Kostek and in 1999 when he asked Brad to come meet with him, Brad had no idea that he was interested in appointing Brad as his successor, especially due to the fact that many of the branch managers had more experience than Brad. In their discussion Jim told Brad that they were looking at him because he was more open minded to new challenges and opportunities as the other branch managers who were close minded and set in their ways. During the next four years Brad was not able to let anyone know that he would be the successor and Jim began preparing Brad to be the successor. Jim sent him to two executive training seminars which in Brad's opinion did not help him much as he believes an individual either has leadership skills or not. People skills have been the largest aspect of being a good leader in

Brad's minds and it has been something that he has gained through exposure to the position.

In 2003 Brad was promoted to the vice president position, which came to be a surprise to many that were in the corporate office because they were not as familiar with him because he was outside the corporate office. Jim's initial plans were to step aside to the CEO position a year after he appointed Brad and let Brad operate the company. But due to the concerns of the employees Jim remained president for two years so that the employees could become comfortable with Brad as the new president. Brad stated that the bonding companies are very reserved when it comes to transition of leadership in an ESOP because when a president retires they can take out a large portion of cash from the company, it was very important that the bonding company understood why they had selected Brad as the successor. Once they recognized that Brad had thirty plus years with the company and he had been a big part of the company's recent success they became comfortable with him. Throughout these two years Jim gave Brad more and more responsibility giving him a chance to slowly learn everything that he would need to do as president. In 2005, Jim moved to CEO and Brad took over operations of the company as the president, the plans were that Brad would be able to call a vice president within three to four years so Jim could retire. Jim moved out of the big office so Brad could move in but he still mentored Brad and helped on smaller tasks that would help Brad focus on the bigger picture company. Brad began to analyze candidates for the vice president as soon as he became president and held yearly reviews with the top candidates. Each candidate

was given tasks that they needed to work on towards working to becoming Brad's successor. This decision was very difficult for Brad and after three years he asked Jim to stay on for two more years to make sure that he was able to select the right candidate. For the next two years Jim was semi-retired but held the position as CEO even though he had very few responsibilities with the company. In 2010 Brad selected his successor and appointed the new vice president that meant that Jim could retire and receive his cash buyout from his employee stocks. The structure of an ESOP gives an individual extra motivation to retire younger to receive the cash buyout of the company's stock, this is what sparked Jim to begin preparing for retirement in his early fifties. Brad stated that it is common for employees to retire in their late fifties and early sixties because of the cash buyout.

Additional lessons learned:

- 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.
- Start looking for your successor the second day you become the boss.
- 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.
- 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.

## Case Study 11

Roman Electric was founded in 1929 by Roman Rose and has been handed down two generations in the Rose family. Roman Electric has become one of the largest electrical contractors in Milwaukee, Wisconsin. Today Roman's two grandsons Phil Rose and Gabe Rose run the company respectively as president and vice president. The lessons learned from their fathers negative experiences with leadership transition helped motivate them to prepare a more extensive succession plan when their father Gerv stepped down as President of the company.

The negative transition started before anyone was prepared when the founder Roman Rose died suddenly of a heart attack, his two sons Gerv and Greg where extremely unprepared to take over management of the company. Both had graduated from college and had a few years of experience within the company but neither had planned on taking over ownership so quickly. This sudden transition was very stressful for the family business but slowly improved over the years as Gerv and Greg could get their feet under them. They grew the business from a dozen guys working for them to the peak in 2000, when they had 450 employees and averaged 55 million dollars annually.

In 2000, Greg died suddenly from a heart attack on the golf course, this event sparked Gerv to begin handing over the company to his two sons. Before Greg's death Gerv, Greg and their sister Sue were the three principle owners of the company. Prior to Greg's death, Gerv and Greg had set up a cross purchase agreement with their insurance company, Gerv cashed this policy out after Greg's

death and purchased his remaining stock from his estate and his heirs. Gerv then went on to gift the majority of his shares to his two sons Phil and Gabe. Sue was not involved with the company and after Greg's death placed her shares of stock into a trust fund for Gabe and Phil.

Both Phil and Gabe had grown up in the company and worked in the shop at very young ages they advanced to being technicians during summer breaks. Both went onto college and graduated, Phil earned a Masters Degree in Business and Gabe graduated in Electrical Engineering. While in school Phil researched succession planning in family business and found out that there is a high rate of failure between successions between the second and third generations. In his research he found that two things helped the third generation successors to be successful: first, successor's who were advanced in education performed better and second, the successor's who worked and gained experience in similar companies outside the family business also performed better. Both Phil and Gabe went off and worked for outside companies after graduating, they both agree that this gave them a great opportunity to gain experience, respect, and credibility for when they returned to Roman Electric. Along with the experience they were able to learn new practices that could be used to help the family business grow. Although they both admit that they don't have the field experience that they wish they had, they have the technical expertise in their project managers that they can lean on for support. Phil returned and worked for the company for seven years before he would transition into the president position.

In 2001, shortly after Phil's uncle passed away the company experienced some financial hardships due to deceitfulness of their vice president, this individual was trusted in the family business but due to his unethical actions he was released from the company. While they worked with the bank to regain their trust after the financial mishap, they all decided that it would be a good time for Phil to step in as president and in 2004 he officially became the president of Roman Electric. Gerv stepped aside as CEO and remains with the company today but more as a mentor and a small project manager. Gerv's personality and love for the company wouldn't allow him to completely retire from the company but he knew it was time for him to step aside, he supports his two son's desires to get into new markets that he had never entered and although they do not always agree, their mutual respect allows them to work through conflicts.

#### Additional lessons learned

- Cross Purchase Agreements are very beneficial for companies that have multiple owners in case of a sudden death.
- 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.

#### **Case Study 12**

Bagby and Russell Electric Company is an electrical contracting firm located in Theodore, Alabama. Frank Russell has worked for the company for 58 years, starting out as an electrician and has now own the company for 23 years. The difficult leadership transition that he experienced with the Bagby family

influenced Frank to be better prepared and plan for his succession. Today, Bagby and Russell employs over 125 individuals and averages 18 million dollars a year in revenue.

In 1987, Mr. Bagby the owner and president of Bagby Elevators unexpectedly became ill and was diagnosed with an incurable form of cancer that would take his life eight weeks later. Mr. Bagby had four children that worked within the company and a brother that worked with him as a partner who had three children that were involved with the company. Due to the Mr. Bagby unexpected death the company was never able to prepare itself for the loss of leadership and the day after his death the company struggled to secure bonding from the banking companies that they had worked with for years. The banking and insurance company were very hesitant to work with the Bagby family because the family members that remained in the company did not understand the day to day operations sufficient to run the company.

Frank Russell at that point had worked for the company for 29 years and was Mr. Bagby's right hand man, Frank had operated a branch of the company prior to Mr. Bagby's death and had talked about buying the branch and starting his own company. Frank had even talked with him about buying the company from the Bagby family. For the next two years Frank helped the struggling Bagby family operate the leaderless electrical company. The company experienced many hardships during those two years with the heirs arguing how the company should be operated, the bonding companies not lending money to the company, and the lawyers disputing how to resolve the ownership issues. Finally two years after Mr.



Bagby had passed away Frank was able to buy the branch of the company that he had built up from the Bagby family. Six months after Frank purchased the branch, Bagby Elevators went into bankruptcy due to the poor family management.

Frank called his company, Bagby and Russell Electric and immediately began planning to ensure that history would not repeat itself when he went to hand over with his company. Frank experienced great success and would operate the company for another 16 years until he would hand the company over to his son. Out of Frank's three children only one of them decided to stay with the company as the other two made the choice to pursue different careers. Ritchie Russell after graduating college decided to return to his father's company and worked his way up the company ladder. In 2000 Frank began preparing to transition management and ownership over to his Ritchie by setting up a buy sell agreement for his son. Frank gifted 49 percent of the company to his son and set up a plan that the son would use the profits from his portion of the company to pay off his father for the remaining shares of the company. Frank believed that nobody should be given anything for free and he didn't want to just give the company to his son. During this time Frank continued to mentor his son on the day-to-day operations and help prepare Ritchie to take over management.

In 2005, Frank suffered a stroke which left him incapable of operating the company for six months, during this time Ritchie took over operations for his father. Frank was able to return to work but has held more of a mentor position for Ritchie and allows his son to operate the company. But unlike his predecessor

Frank had prepared a successor that when an unfortunate event occurred the company was prepared and was able to successful transition to new leadership.

Additional lessons learned:

- You can't predict future issues but you can make plans to minimize these issues

## Chapter 5

### DATA ANALYSIS

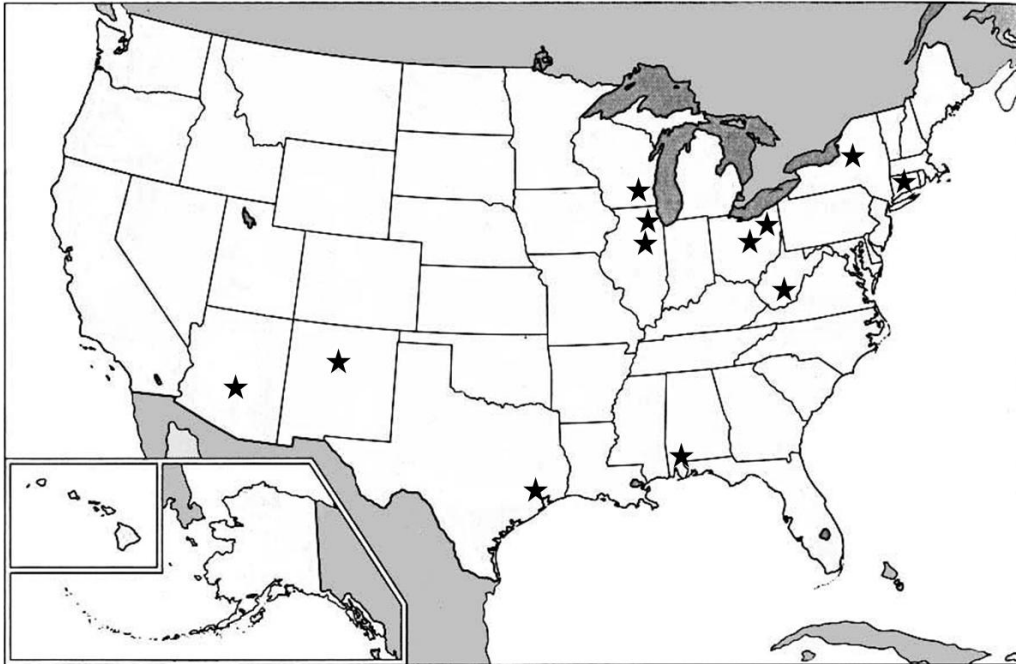
#### **Introduction**

This chapter presents an analysis of the data extracted from the interviews of the twelve construction individuals. The extracted data was analyzed for interconnections and patterns found amongst the twelve case studies. The chapter also illustrates the level of correlation found between the researcher's analysis and the literature review found with prior succession planning research. Correlations with Dr. Schleifer's succession knowledge and the results of the case studies are also reviewed. The characteristics of the case studies are first presented to develop the variations of the case studies. The average succession timeline is presented from the trends found in the companies. Quantitative data collected in the case studies is presented in order of this succession timeline. The chapter concludes with the factors that determined the level of success of the leadership transition for each company.

#### **Company Characteristics**

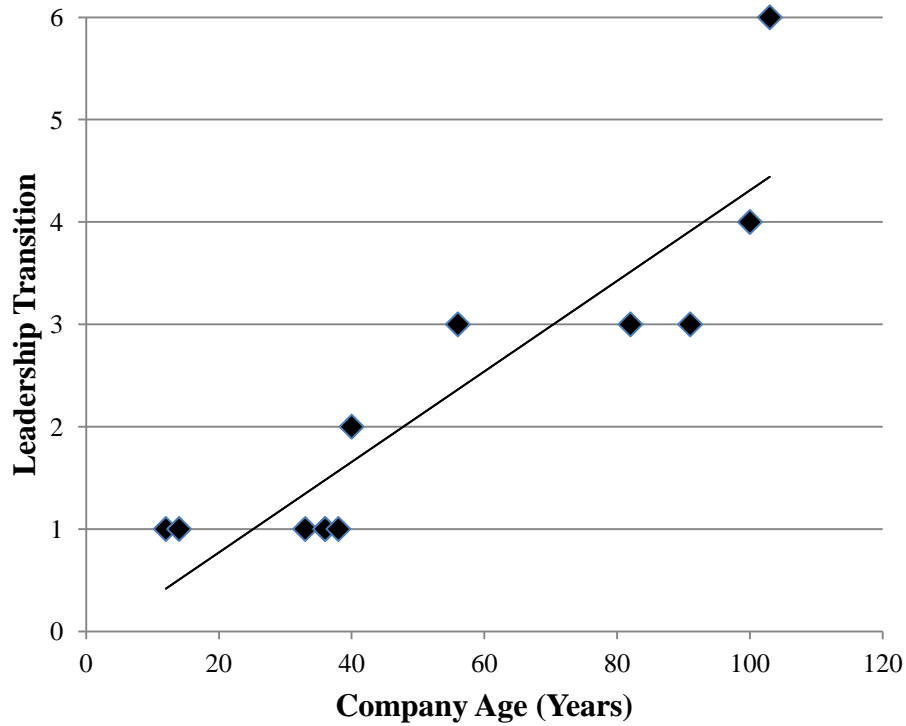
Although the companies interviewed were all electrical contractors, the data analysis found various distinctions in the construction companies, variations were: geographical location, year founded, number of leadership transitions, average duration of the company founder, current number of employees, current average yearly revenue, and ownership type. The first variance with the electrical contractors were the geographical locations, Figure 5.1 represents the geographical locations of the twelve contractor's home offices, although locations

carried no correlations were found with location and succession methods of the contractors.



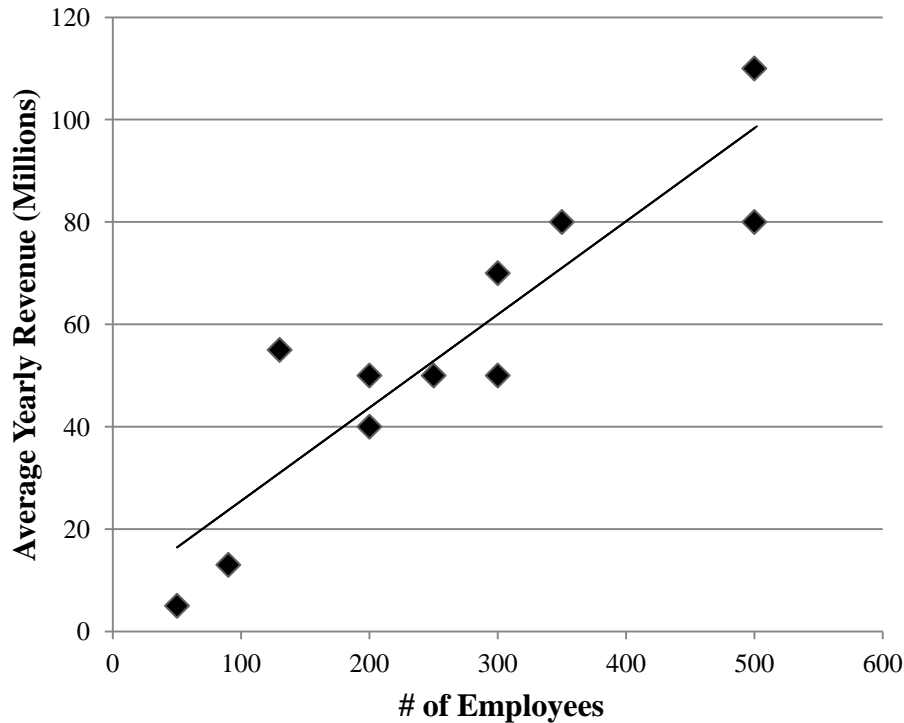
*Figure 5.1: Geographical Locations of Twelve Case Studies*

The average year the companies were founded was 1958, which results in an average company lifespan of 53 years. The companies on average around two leadership changes during the life of the company, Figure 5.2 displays the changes of leadership to the age of the companies. The companies that had experienced more leadership transition in general understood the importance for planning succession. The average founder of the company was found to be with the company for 24 years from the launch of the company. This correlates with Trow's (1961) study that found that executives were found to be with their company on average from 20 to 25 years.



*Figure 5.2: Leadership Transition to Age of Company*

The company sizes varied between the twelve case studies, excluding the largest publically owned company that averages 1700 employees and yearly revenues of 4.5 billion dollars, the eleven remaining companies averaged 261 employees and 55 million dollars in yearly revenue. The variation of the size of the companies interviewed is presented in Figure 5.3, excluded from this chart is the publically owned company that employees 1700 and averages yearly revenue of 4.5 billion.



*Figure 5.3: Average Yearly Revenue to Number of Employees in Eleven of the Construction Companies Interviewed*

Schrader (2006) estimated that 95 percent of the construction companies are family-owned or closely held business. Although the researcher’s selection of companies depended on volunteering participants a high correlation was found between the percent of company types and those that volunteered. The majority, 75 percent of the companies interviewed, were family owned companies, 8 percent were closely owned through a partnership, and 8 percent were employee owned (ESOP) which means that 92 percent of the companies interviewed were close to Schrader estimate of 95 percent being family-owned or closely held business. The other 8 percent of the companies interviewed were publically owned. Although nearly half of the family companies would no longer remain in

the family after transition, Table 5.1 presents the ownership type of the companies interviewed before they experienced leadership transition.

Table 5.1

*Company Ownership Type before the Leadership Transition*

| <b>Ownership Type</b> | <b>#</b> | <b>%</b> |
|-----------------------|----------|----------|
| Family                | 9        | 75%      |
| Partnership           | 1        | 8%       |
| Publicly Owned        | 1        | 8%       |
| ESOP                  | 1        | 8%       |

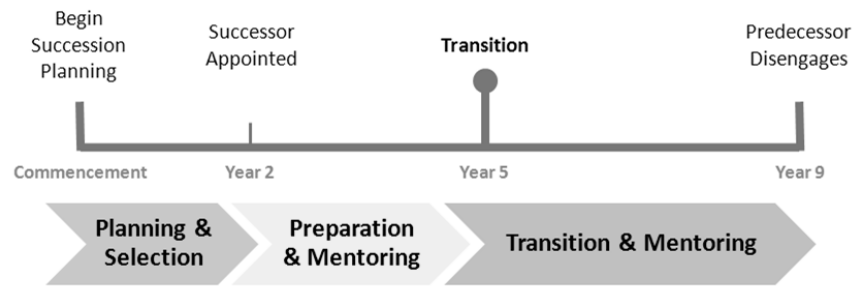
The variations of the company size and ownership type impacted the experience and amount of planning that occurred in the leadership transitions in the companies, these interconnections and trends found in the succession planning will be presented in the average succession timeline.

**Succession Timeline**

Part of the researcher's thesis objective was to discover the corresponding timelines of succession found in the individual case studies. The four most common time periods found in succession were:

1. The average time when the predecessor began succession planning up to the actual transition time (5 years).
2. The average time required from the beginning of succession planning to the point of successor selection (2 years).
3. The average time the successor had to prepare to the actual transition time (3 years).
4. The average years that the predecessor would remain with the company after transition (4 years).

Three phases were developed from these time periods of major milestones to describe the periods of succession planning. Figure 5.4 presents the three time periods found in the case studies: “Planning and Selection”, “Preparation and Mentoring”, “Transition and Mentoring”.



*Figure 5.4: Leadership Transition Time Periods*

Additional data that was collected in the a 2001 survey of 402 contractors found that around 90 percent of all sale transitions in construction companies will be done in a year or less (Electrical Contracting Foundation 2001).

### **Succession Planning**

The commencement of planning was looked at to determine which factors influenced the presidents to begin planning for their retirement. The predecessors in the case studies had many different reasons to begin planning for their succession, as they were analyzed the researcher categorized them into five common groups: health problems, age, succession planning awareness, financial motivation, and concern of past family health issues. Health problems were the leading reason that planning was initiated, cancer, strokes, rheumatoid arthritis, and fear from past family heart disease were all seen in the case studies. Two of the predecessors that had health issues had very little ability to plan for their



succession because of sudden deaths. Table 5.2 breaks down the leading causes of succession planning.

Table 5.2

*Leading Causes for a Predecessor to Begin Planning Retirement*

| # | Causes to Begin Planning Retirement  | # | %   |
|---|--------------------------------------|---|-----|
| 1 | Health Problems                      | 4 | 33% |
| 2 | Age                                  | 3 | 25% |
| 3 | Succession Planning                  | 2 | 17% |
| 4 | Financial Motivation                 | 2 | 17% |
| 5 | Concern of Past Family Health Issues | 1 | 8%  |

Once planning commenced the level of planning varied with each company and predecessor, in total 58% of the companies developed an actual plan for the leadership transition which is higher than three studies that found only 30-50% of the companies plan for succession (Taylor & McGraw, 2004, Cairns, 2011, & SFGate, 2011). The researcher analyzed the companies planning efforts in the quality of plan analysis which is described in the third chapter of the thesis. The results of the quality of plan analysis are presented in Table 5.3, the number one represents a “Yes” answer and the number zero represents a “No” answer. Seven of the twelve (58%) companies scored over fifty percent on their plan. The two companies that scored the lowest score of 0% had little to no planning when the owner of the company unexpectedly died, this lack of planning negatively impacted the outcome of the companies succession and correlates with Behn’s (2005) statement that having a successor appointed and prepared upon the death of a president has a high return on investment.

Table 5.3

*Quality of Plan Analysis*

| Case Study | They formally compiled the plan for succession | They planned the succession | The plan was followed | They met regularly | They captured the vision of company in the plan | Prepared a plan to develop successor | They hired a succession consultant | Quality of plan |
|------------|--|-----------------------------|-----------------------|--------------------|---|--------------------------------------|------------------------------------|-----------------|
| # 1        | 1  | 1                           | 1                     | 1                  | 0   | 0                                    | 0                                  | <b>57%</b>      |
| # 2        | 0  | 1                           | 1                     | 1                  | 1   | 1                                    | 1                                  | <b>86%</b>      |
| # 3        | 0  | 0                           | 0                     | 0                  | 1   | 1                                    | 0                                  | <b>29%</b>      |
| # 4        | 0  | 0                           | 0                     | 0                  | 0   | 0                                    | 0                                  | <b>0%</b>       |
| # 5        | 0  | 1                           | 0                     | 1                  | 1   | 1                                    | 0                                  | <b>57%</b>      |
| # 6        | 0  | 1                           | 1                     | 0                  | 1   | 1                                    | 1                                  | <b>71%</b>      |
| # 7        | 1  | 1                           | 1                     | 0                  | 1   | 1                                    | 1                                  | <b>86%</b>      |
| # 8        | 1  | 1                           | 1                     | 1                  | 1   | 1                                    | 0                                  | <b>86%</b>      |
| # 9        | 0  | 0                           | 1                     | 0                  | 0   | 0                                    | 0                                  | <b>14%</b>      |
| # 10       | 1  | 1                           | 1                     | 1                  | 1   | 1                                    | 1                                  | <b>100%</b>     |
| # 11       | 0  | 0                           | 0                     | 0                  | 1   | 0                                    | 0                                  | <b>14%</b>      |
| # 12       | 0  | 0                           | 0                     | 0                  | 0   | 0                                    | 0                                  | <b>0%</b>       |
| <b>AVG</b> | <b>33%</b>                                     | <b>58%</b>                  | <b>58%</b>            | <b>42%</b>         | <b>67%</b>                                      | <b>58%</b>                           | <b>33%</b>                         | <b>49%</b>      |

When comparing the quality of plan scores to the cause of retirement the researcher found that those that planned due to health problems had lower rating succession plans, Smedley (1974) findings confirm this analysis when Smedley stated that executives that have health issues quickly become focused on planning their succession. Table 5.4 shows the reasons for planning for those that scored less than 50 percent on their quality of plan.

Table 5.4

*Leading Causes for a Predecessor to Begin Planning Retirement that Scored Lower than Fifty Percent on Their Quality of Plan*

| # | Causes to Begin Planning Retirement | # | %   |
|---|-------------------------------------|---|-----|
| 1 | Health Problems                     | 3 | 60% |
| 2 | Age                                 | 1 | 20% |
| 3 | Financial Motivation                | 1 | 20% |

In retrospect those that scored higher than 50 percent on their quality of plan began planning for retirement due to recognition of age, attending a succession planning presentation, financial motivation, or to avoid issues with potential health risks that have effected past family members.

Table 5.5

*Leading Causes for a Predecessor to Begin Planning Retirement that Scored Higher than Fifty Percent on Their Quality of Plan*

| # | Causes to Begin Planning Retirement | # | %   |
|---|-------------------------------------|---|-----|
| 1 | Age                                 | 2 | 29% |
| 2 | Succession Planning Presentation    | 2 | 29% |
| 3 | Financial Motivation                | 1 | 14% |
| 4 | Past Family Health Issues           | 1 | 14% |
| 5 | Health Problems                     | 1 | 14% |

## Management Transition

As Tom Schleifer pointed out an owner of a company has two decisions, first who they will transfer management of the company too and second who will they transfer ownership of the company too, both of these decisions should be made in the planning phase. With deciding who will be the successor of the company, 83 percent of the companies interviewed had to decide who to transfer both management and ownership to. Often the first decision predecessors make is the selection of the best individual to manage the company into the future and shares the same company vision.

For family companies this often depends on if they have children or related family members working in the company and if they are interested in taking over the company. In the cases studies only 44 percent of the family owned companies had children working in the company that were interested in taking over the management of the company, see Table 5.6. For these companies the predecessor decision was much easier as they trusted that their children would be able to take over the responsibility of the company. The eldest son was the natural successor in all of these companies and went on to be selected as the successor.

Table 5.6

*Ratio of Family Companies with Interested Children Working Inside Company*

|     | # | %   |
|-----|---|-----|
| Yes | 4 | 44% |
| No  | 5 | 56% |

For the other five family companies that had no children interested in taking over the business their decision was not as easy as they had to find a

qualified successor to take over the company, similarly, the three non-family owned companies also had to decide on who would be the best individual to run the company. The majority of these companies focused solely on selecting an internal employee as the prospective successor. The publically owned company was the only company to evaluate external candidates for the president position, but after multiple failed attempts with highly educated external CEO's did they eventually decide on an internal project manager within the company. The majority of the selected successors were project managers or vice presidents that had proven their value to the company, many times they were the top money maker's in the company. The successors chosen from these eight companies are presented in table 5.7 by job title when selected.

Table 5.7

*Previous Job Titles of Non-Children Successors*

| <b>Job Title</b>        | <b>#</b> | <b>%</b> |
|-------------------------|----------|----------|
| Project Manager         | 4        | 50.0%    |
| Vice President          | 3        | 37.5%    |
| Chief Financial Officer | 1        | 12.5%    |

Common characteristics were found among the twelve individuals selected such as: age, education, and experience. The majority, 75 percent of the successors that were selected had a college degree and 83 percent of them gained experience in the company by working their way up through tradesman, superintendent, and to project manager. The average years of experience that the successor had at the time of becoming president of the company was 15 years and on average was 45 years old. The age of 45 was said by one of the presidents of

the companies to be a good age for succession because he was old enough to have the necessary experience to manage the company but at the same time had enough time left in his career before retirement to provide stability for their company.

### **Ownership Transition**

The owner must also make the important decision on how to sale or transfer their ownership, most of the sale agreements for the owner's financial compensation were dependent on the successors ability to pay for the company using the company future profits. Without sufficient planning the transfer of ownership could cause serious risk for each the successor and the predecessor. The nine family companies had to make the decision on how they would transfer ownership to either their kids or to the successors. The five family companies that had no children interested in taking over the company (Table 5.6) had to make a decision on what they would do with ownership of the company. All five of these companies ended up selling ownership of the company to key employees within the company, three of which spent a great amount of effort in planning the ownership transition and enjoyed relatively no surprises with the transition of ownership to either one or more of the employees, one of these companies set up an ESOP in which multiple employees could buy ownership.

The other two companies did very little planning for ownership transitioning and suffered for it. Neither family was interested in running the company in the two case studies when the owner suddenly died, the children struggled to find a way to manage the company and were anxious to find a prospective buyer. Fortunately both of these companies were able to set up buy

sell agreements with the companies best Project Manager and receive some financial compensation for their fathers company.

For the four companies that had interested children and wanted to take over the company (Table 5.6) the decision was easy, most gifted their children ownership of the company. Many of these family companies had children that did not directly work with the company, all the predecessors all that the children that were not directly working with the company should not receive ownership of the company and were financial compensated in another fashion. This mentality of passing ownership over to only those that were directly involved with the company was common, 83 percent of all the companies interviewed thought that it was a bad idea to have anyone own stock in the company unless they worked directly with the company. Table 5.8 shows ownership type after the transitions that occurred with the case studies.

Table 5.8

*Company Ownership Type after the Leadership Transition*

| <b>Ownership After Transition</b> | <b>#</b> | <b>%</b> |
|-----------------------------------|----------|----------|
| Family                            | 7        | 33%      |
| Partnership                       | 2        | 42%      |
| Publicly Owned                    | 1        | 8%       |
| ESOP                              | 2        | 17%      |

Specifically how the owners transferred the ownership shares of the companies to the successors also varied with the case studies, the majority 58 percent of the predecessors sold their shares of the company to the successor, 25 percent of the predecessors gifted their shares of ownership to their children, and 17 percent of the predecessors did not have to transfer ownership over to the

successor because they were either employee or publically owned and didn't require transfer of ownership at transition, shown in Table 5.9.

Table 5.9

*Method of Ownership Transfer*

| <b>Method</b>            | <b>#</b> | <b>%</b> |
|--------------------------|----------|----------|
| Sold company             | 7        | 58%      |
| Gifted ownership         | 3        | 25%      |
| No transfer of ownership | 2        | 17%      |

The companies that had to transfer ownership by selling the shares to the successor did this in two different ways, shown in Table 5.10. Setting up a buy sell agreement was the most common way 85 percent in which ownership was sold to the predecessor, usually the predecessor and successor come to agreement that the successor would pay off the business value over a period of time with the future profits of the company. Advantageously the predecessor does not have to come up with the initial value of the company and can pay off the large sum for the company with the profits of the company, the disadvantages come if the company does not profit and the successor has to find an alternative way to make the payment. Two of the companies accomplished the buy sell agreement by forming a new company with the same name, once the transition occurred, all work was assigned to this newly formed company and its profits were used to pay off the predecessor.



Table 5.10

*Method of Selling Ownership*

| <b>Method for Selling Company</b>       | <b>#</b> | <b>%</b> |
|---|----------|----------|
| Buy sell agreement/contract             | 6        | 85%      |
| Formed an ESOP sold shares to employees | 1        | 15%      |

One of the family companies that sold ownership, formed an Employee Stock Ownership Program (ESOP), this allowed the employee's that worked in the company the opportunity to purchase shares of the company.

**Successor Training and Mentoring**

Nearly all of the Successors had gained technical experience by working their way up in the industry (83%) and most had earned a college degree (75%). But once appointed the successors on average had three years to prepare themselves to manage the company, this preparation included learning how the business operated and establishing the key relations needed to operate the company. Many of the successor preparation activities that were seen in Wellens (2006) research were seen in the case studies, such as:

- Inside mentoring from predecessor and/or experienced employees
- Business or leadership classes or seminars
- Meet with external leadership coaches
- Read leadership articles and books
- Assigned new projects or areas of responsibilities

Other activities that were also seen in the research:

- Slowly absorbed presidents responsibilities
- Attended public speaking courses

- Got involved with industry association
- Hired a personal fitness coach for health reasons
- Started career in a similar company before returning to take over the family owned company.

Although very few of these successors had a formal plan to prepare themselves they all felt like the preparation was important to the success of the leadership transition. The most prepared successors seen in the case studies had formal preparation plans designed with areas of focus that both the company and the successor thought necessary.

### **Transition**

The transition phase for most of them 67 percent was an instant moment, the successor walked in to the room signed paperwork and left the room as the President, opposite the predecessor walked in the room as the President and left the room retired or as an employee for the successor. The other 33 percent slowly assumed their father's responsibilities until the father felt the son was ready to take over as the president of the company. In total 67 percent (see table 5.11) of the predecessors remained with the company in one way or another and on average continued to work for the company for 4 years past the transition period. This correlates with the 2001 survey of contractors that said that 71 percent of the predecessors stayed with the firm in some capacity after selling the business.

Table 5.11

*Ratio of Predecessors that Disengaged after Transition*

|     | # | %   |
|-----|---|-----|
| Yes | 4 | 33% |
| No  | 8 | 67% |

Table 5.12 shows the predecessor’s responsibilities that continued with the company: mentoring the successor (88 percent), estimators (13 percent), manage small projects (13 percent), and be liaisons for unions and industry associations (25 percent).

Table 5.12

*Responsibilities of Predecessors after Transition*

| <b>Responsibilities</b>      | # | %   |
|------------------------------|---|-----|
| Mentor to successor          | 7 | 88% |
| Union or association liaison | 2 | 25% |
| Estimator                    | 1 | 13% |
| Small project management     | 1 | 13% |

Even though 67 percent of the predecessors remained with the company, only 42 percent of the case studies showed that they had prepared planned responsibilities for the predecessor after the transition. This lack of planning created difficulties and disagreements between some of the predecessor and successor after the transition. Half of the remaining predecessors had disagreements with the successors after the transition, the majority of the reasons were due to disagreement with business practices, see Table 5.13. Another issue that was seen in some cases was that employees were more loyal to the predecessor instead of following the directions of the new president. Many of the

predecessors made the suggestion to give the big office to the successor the day of the transition and then get out of the way to try to avoid these problems.

Table 5.13

*Disagreement between Predecessors and Successors after Transition*

| <b>Disagreement</b>                                    | <b>#</b> | <b>%</b> |
|--|----------|----------|
| Business practices                                     | 3        | 75%      |
| Issues stemming from employee's loyalty to predecessor | 1        | 25%      |

Another impact that was seen with the transitions was the loss of senior management after transition. Half of all the companies interviewed lost senior managers within the year after the transition, shown in Table 5.14.

Table 5.14

*Ratio of Companies that Lost Senior Management the Year after Transition*

|     | <b>#</b> | <b>%</b> |
|-----|----------|----------|
| Yes | 6        | 50%      |
| No  | 6        | 50%      |

The reasons that the companies lost key employees was due to the selection of the successor(50 percent), disagreements with new business practices(33 percent), and better outside opportunities(17 percent) influenced key managers to leave the company, shown in Table 5.15. Some companies were able to prepare themselves for this loss by providing a financial incentive for the senior managers if they would remain with the company for five years after the transition.

Table 5.15

*Reasons that Senior Management Left the Year after Transition*

| <b>Reasons</b>                                     | <b>#</b> | <b>%</b> |
|--|----------|----------|
| Disagreed with predecessors selection of successor | 3        | 50%      |
| Disagreed with new successors management style     | 2        | 33%      |
| Left for a better opportunity                      | 1        | 17%      |

**Recommended practices**

The researcher’s literature review of leading articles in succession planning identified the top ten recommended practices that a company could implement to minimize the impacts that are found with leadership transition. The interviewees were questioned if their companies included these recommended practices in their transition, the results are seen on Table 5.16, again the number 1 represents a “Yes” answer and a number 0 represents a “No” answer.

Table 5.16

*Top Ten Recommended Practices Case Study Analysis*

| Practice  | Case Study | # 1      | # 2      | # 3      | # 4      | # 5      | # 6      | # 7      | # 8       | # 9      | # 10      | # 11     | # 12     | Average    |
|---|------------|----------|----------|----------|----------|----------|----------|----------|-----------|----------|-----------|----------|----------|------------|
| Prepare a succession plan                       |            | 1        | 1        | 0        | 0        | 1        | 1        | 1        | 1         | 0        | 1         | 0        | 0        | <b>58%</b> |
| Analyze and select quality candidates           |            | 1        | 1        | 1        | 0        | 1        | 1        | 1        | 1         | 1        | 1         | 1        | 0        | <b>83%</b> |
| Prepare a plan to develop successor             |            | 0        | 1        | 1        | 0        | 1        | 1        | 1        | 1         | 0        | 1         | 0        | 0        | <b>58%</b> |
| Prepare well defined responsibilities           |            | 0        | 1        | 0        | 0        | 1        | 1        | 1        | 1         | 1        | 1         | 1        | 0        | <b>67%</b> |
| Secure senior level support                     |            | 1        | 1        | 1        | 0        | 1        | 1        | 1        | 1         | 1        | 1         | 1        | 0        | <b>83%</b> |
| High level of communication                     |            | 1        | 1        | 1        | 0        | 1        | 1        | 1        | 1         | 1        | 1         | 1        | 0        | <b>83%</b> |
| Talent management processes in company          |            | 0        | 0        | 0        | 0        | 1        | 0        | 0        | 1         | 0        | 1         | 0        | 0        | <b>25%</b> |
| Capture the vision of company                   |            | 1        | 1        | 1        | 0        | 1        | 1        | 1        | 1         | 0        | 1         | 1        | 0        | <b>75%</b> |
| Measure performance before and after succession |            | 0        | 0        | 0        | 0        | 1        | 1        | 0        | 1         | 0        | 1         | 0        | 0        | <b>33%</b> |
| Agreed post responsibilities of predecessor     |            | 0        | 0        | 0        | 0        | 0        | 1        | 1        | 1         | 1        | 1         | 0        | 0        | <b>42%</b> |
|   | Total      | <b>5</b> | <b>7</b> | <b>5</b> | <b>0</b> | <b>9</b> | <b>9</b> | <b>8</b> | <b>10</b> | <b>5</b> | <b>10</b> | <b>5</b> | <b>0</b> |            |

The order from left to right on Table 5.16 lists the Recommended practices in descending order of recommended frequency found in the literature review, i.e.. “Prepare a succession plan” was recommended the most among the practices and “Agreed responsibilities of predecessor after transition” was recommended the least among the practices in the literature review. Respectively, the recommended practices were not practiced amongst the case studies in this descending order of recommended frequency. The majority of the companies (83 percent) practiced five or more of the recommended practices found from the literature review, 50 percent of the companies applied seven or more of the recommended practices. The most often implemented recommended practices were seen in 83% of the case studies: “Analyze and select quality candidates”, “Secure senior level support”, and “High level of communication”. The practices seen the least in the case studies were “Talent management processes in company” and “Measure performance before and/or after succession” both of which were only seen in the larger more established companies that were interviewed.

On average the twelve companies incorporated six of the recommended practices with their succession planning. Two companies were found to have practiced all ten recommended practices both of which were large established companies, one being the large publically owned company that employees over 1700 and the other was the Employee owned companies that was founded in 1908 and had experienced several leadership transitions. Again the two that suffered with leadership transitioning after the sudden death of the owner were seen to not

have established any of the recommended practices before the death of the predecessor.

The case studies that had higher number of recommended practices in their succession planning scored higher on the quality of plan that was presented earlier in the chapter. When placed on a scatter chart the number of recommended practices to the quality of the succession plan shows a high level of correlation, see Figure 5.5. This correlation between the two had strong linear relationship with a regression formula of  $y = 8.1516x + 2.1046$ , and a coefficient of determination of  $R^2 = 0.74$ , which denotes the high level of correlation.

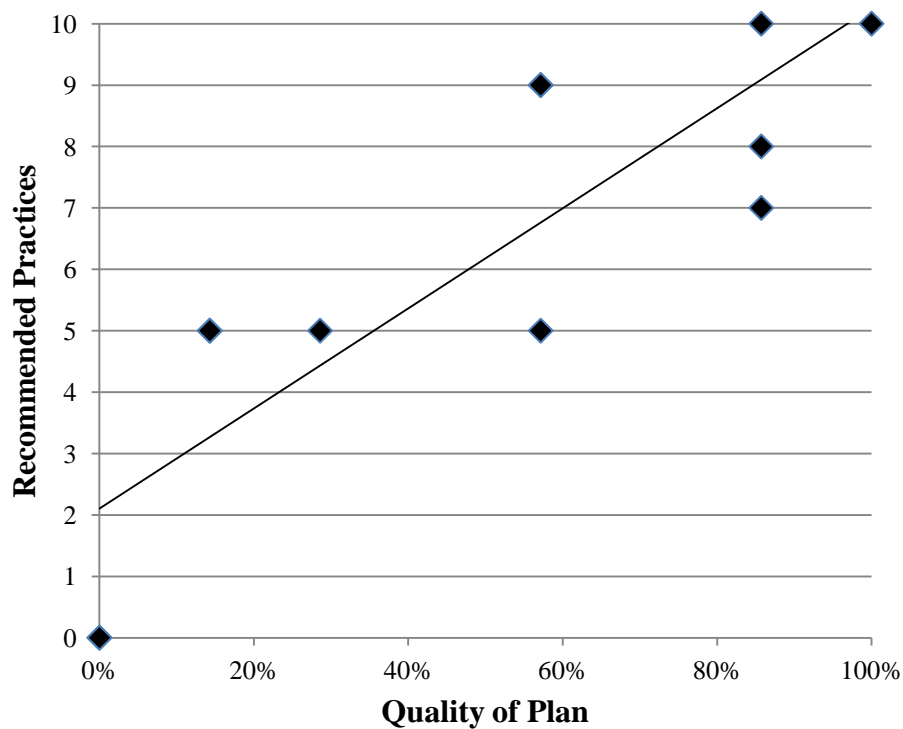


Figure 5.5: Correlation of Recommended practices to Quality of Plan

This verifies that the individual actions that have been recommended by past research can assist a construction company plan for succession of their leaders.



## **Level of Success**

The level of success of the leadership transition for each case study was analyzed to determine how well the transition occurred and which case study had the greatest success. The level of success was determined by five variables collected in the interviews, they were as followed:

1. Level of preparedness (Quality of Plan)
2. Interviewees opinion of level of success
3. Interviewees opinion of the response from employees, clients, banks, and bonding companies
4. Conflicts between predecessor & successor
5. Successor experienced surprises with transition

Table 5.17 includes the data collected in the level of success analysis, further details of this analysis and how the five variables were rated is included in the methodology chapter of the thesis. The highest rated succession was seen in the employee owned company, this company scored the highest level of success score, five. The lowest scores were seen from the two companies where the predecessors unexpectedly died. The average level of success score for the case studies was 2.7 with a standard deviation of 1.7.

Table 5.17

*Level of Success Analysis*

| Case Study | Level of preparedness (quality of plan) | Interviewees opinion of level of success<br>Positive = 1<br>Average = .5<br>Negative = 0 | Interviewees opinion of response from employees, clients, banks, and bonders<br>Positive = 1<br>Average = .5<br>Negative = 0 | Conflicts between predecessor & successor<br>0 = Yes<br>1 = No | Successor experienced surprises with transition<br>0 = Yes<br>1 = No | <b>Level of Success</b><br><b>5 - High Success</b><br><b>0 - Low Success</b> |
|------------|---|--|--|--|--|--|
| # 1        | 57%                                     | 0.5  | 1  | 0  | 0  | <b>2.1</b>   |
| # 2        | 86%                                     | 0.5  | 1  | 1  | 0  | <b>3.4</b>   |
| # 3        | 29%                                     | 0.5  | 1  | 0  | 1  | <b>2.8</b>   |
| # 4        | 0%                                      | 0  | 0  | 0  | 0  | <b>0.0</b>   |
| # 5        | 57%                                     | 1  | 1  | 1  | 1  | <b>4.6</b>   |
| # 6        | 71%                                     | 0.5  | 0.5  | 1  | 0  | <b>2.7</b>   |
| # 7        | 86%                                     | 1  | 1  | 0  | 1  | <b>3.9</b>   |
| # 8        | 86%                                     | 1  | 1  | 1  | 1  | <b>4.9</b>   |
| # 9        | 14%                                     | 0.5  | 0.5  | 1  | 0  | <b>2.1</b>   |
| # 10       | 100%                                    | 1  | 1  | 1  | 1  | <b>5.0</b>   |
| # 11       | 14%                                     | 0.5  | 0.5  | 0  | 0  | <b>1.1</b>   |
| # 12       | 0%                                      | 0  | 0  | 0  | 0  | <b>0.0</b>   |
| <b>AVG</b> | <b>50%</b>                              | <b>0.58</b>  | <b>0.71</b>  | <b>50%</b>   | <b>42%</b>   | <b>2.7</b>   |

Trow (1961) stated that companies that plan for succession will be more profitable, a high level of correlation was found between the companies that received higher level of success scores and those that scored higher on their quality of plan. Figure 5.6 is a scatter plot showing the high level of correlation between quality of plan scores and the level of success scores. This correlation between the two had strong linear relationship with a regression formula of  $y = 4.0925x + 0.6621$ , and a coefficient of determination of  $R^2 = 0.76$ , which denotes the high level of correlation. A 2001 survey of 389 of contractors found that only 42 percent of presidents have a succession plan prepared (Electrical Contracting Foundation & CFG Business Solutions LLC, 2001).

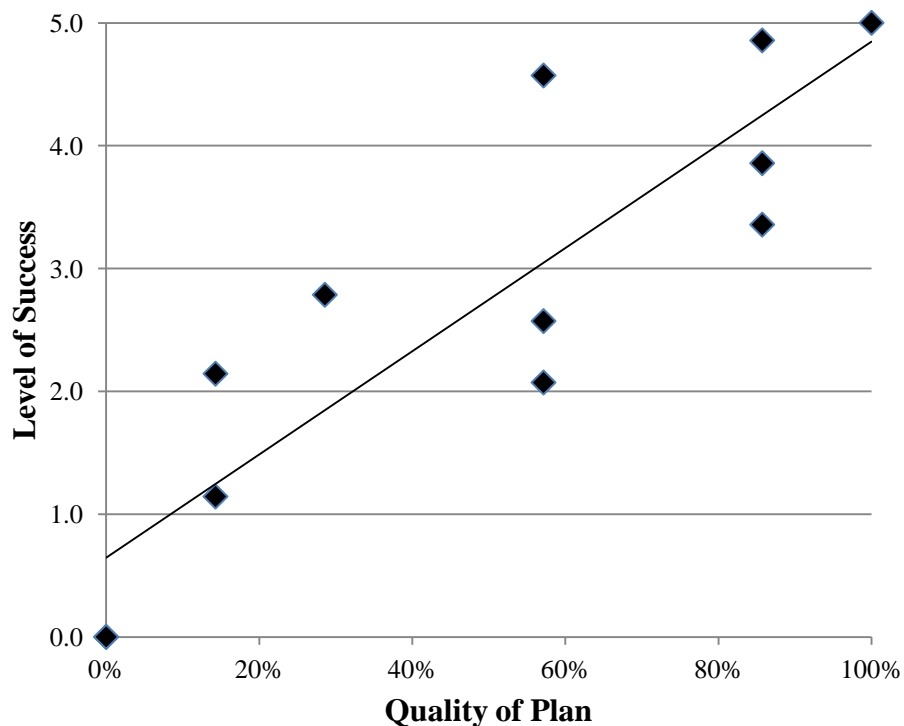


Figure 5.6: Correlation of Level of Success to Quality of Plan

A high level of correlation was also found between the companies that received higher level of success scores and those that implemented more of the top ten best succession practices. Figure 5.7 is a scatter plot showing the high level of correlation between recommended practices and the level of success scores. This correlation between the two also had a strong linear relationship with a regression formula of  $y = 0.4698x - 0.1497$ , and a coefficient of determination of  $R^2 = 0.88$ , which denotes the high level of correlation.

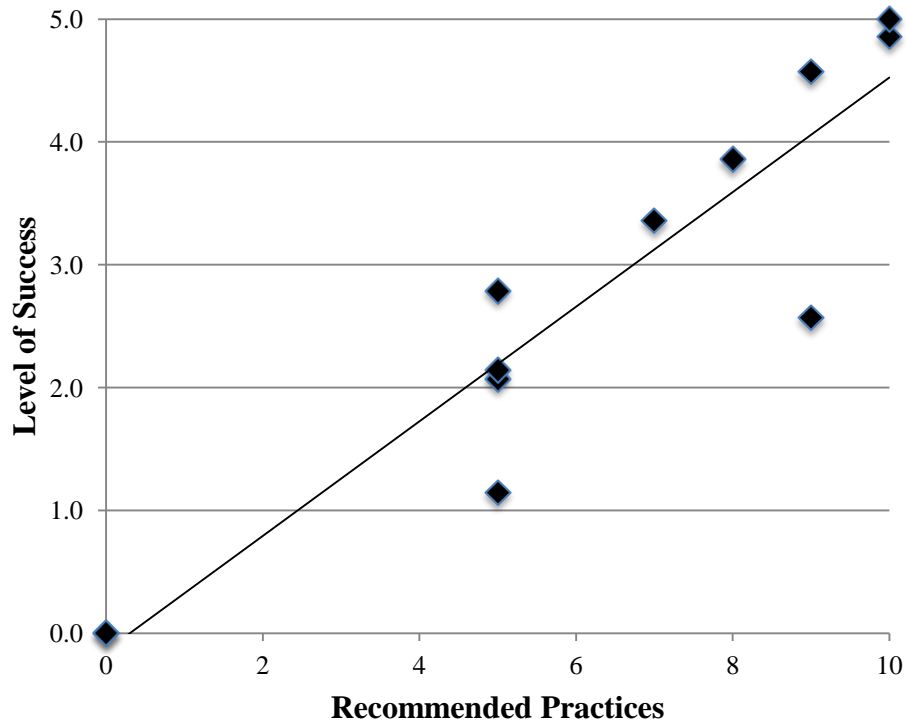


Figure 5.7: Correlation of Level of Success to Recommended practices

## Chapter 6

### CONCLUSION

#### **Summary**

The human resources found in a company serve as the most vital resource a construction company must maintain, particularly its key leadership individual. The inevitable transition of leadership creates visible and sometimes undetected impacts to a construction company, these impacts can cause turmoil financially and operationally unless minimized through efforts included in succession planning. Succession research has shown that efforts starting before the leadership transition can minimize the negative impacts that come with succession. Little research on executive succession was found in the construction industry, though the industry highly depends on key individuals to direct their companies. Twelve construction companies that have recently experienced leadership change provided case studies to find effective succession methods within construction companies. The results of this research will benefit construction companies with planning and preparation's that can minimize negative and costly impacts to their leadership transitions.

The twelve case studies were analyzed for distinguishing features in the leadership transitions to determine the factors that increased or decreased the level of success. Key factors that were collected and used to calculate the level of success rate for each case study were: key individual's opinion of success, reactions of associated individuals, planning efforts, conflicts between the

predecessor and successor, and surprises that the successor encountered in the transition.

The literature review recognized from past research the ten most frequently recommended practices to assist succession, which were:

- Prepare a succession plan
- Analyze and select quality candidates
- Prepare a plan to develop successor
- Prepare well defined/communicated responsibilities
- Secure senior level support
- High level of communication
- Talent management processes in company
- Capture the vision of company
- Measure performance before and/or after succession
- Agreed responsibilities of predecessor after transition

These twelve case studies were analyzed for the correlation between the ten best practices and the level of success of the transition of the executive. Figure 5.7 shows a high level of correlation between the best practices and the level of success, demonstrating that the more best practices that a company implemented into their succession the better the results were of the leadership change.

The most recommended best practice found in succession research was developing a plan for succession and the research has documented the benefits of planning before leadership change. Even with the vast research that has been done in succession planning only 30 to 50 percent of companies in all industries plan

for succession. Although the majority of the included case studies stated that they had done some succession planning, their succession plan was evaluated on the quality and effort that was placed into the plan. The factors used to analysis the quality of plan were:

- If they formally compiled the plan for succession
- If they planned the succession
- If they followed the plan
- If they met regularly to review the plan
- If they captured the vision of the company in the plan
- If they prepared a plan to develop the successor
- If they hired a succession consultant

The companies that put more effort and focus into their succession plan had a higher level of success with their leadership transition. Figure 5.6 illustrates the high correlation between planning for succession and achieving a successful leadership transition. Figure 5.5 shows that a construction company that adopts more of the top ten best practices in succession will have a higher quality of plan, both of which lead to a higher level of success with leadership succession.

The researcher found that the predecessors who were proactive with their succession plan experienced better successions, the reactive predecessors that planned their succession due to poor health conditions experienced poorer successions. The researcher also found that a typical successor in a construction company is on average 45 years old and has 15 years of experience in the industry. The majority of them graduated from college and had worked their way

up through the construction industry. The average transition time scale of leadership transition lasted nine years, five before transition and four after transition.

### **Recommendation for Future Research**

This research provides a strong foundation for succession research in the construction industry and developed areas in which construction companies can focus to assist them in their succession. Recommendations for future research includes the development of the researchers findings by capturing the data of a leadership succession that incorporates all ten recommended practices and focuses on obtaining a high quality plan. This data could be analyzed from the succession to find the company's successes and if discover what surprises occur during the transition which could add to the development of these recommendations for construction companies.

Areas of focus that can be further analyzed in construction succession research are: succession dynamics in types of construction companies, succession dynamics in family and non-family owned companies, analysis and development of leadership qualities in successors, methods of ownership transfer with construction companies, and financial impacts of construction leadership succession.

### **Conclusion**

The objective of this research was to develop a methodology that a construction company could follow to effectively plan for leadership transition and prepare a selected successor to assume leadership responsibilities. An average



succession time line was developed with the twelve construction company's recent experience with succession. This timeline can be coordinated with activities that will assist a construction company prepare for succession. Through vast research of past succession research the ten most recommended activities were distinguished, these ten practices were analyzed with the twelve case studies and determined to have a high level of correlation with the success of leadership change. Planning for succession was also found to have a high level of correlation with the success of a leadership change. The quality of succession planning was found to vary amongst the construction companies, but those that had a higher quality of plan had higher level of success in their leadership succession.

By recognizing the average succession timeline, incorporating the ten best succession practices, and focusing on quality planning before the leadership transition a construction company can achieve the objective of this thesis and minimize the negative impacts that come with executive succession.

## REFERENCES

- Beckhard, R., & Dyer, W. G. J. (1983). Managing change in the family firm - issues and strategies. *Sloan Management Review*, 24(3), 59-65.
- Behn, B. K., Riley, R. A., & Yang, Y. (2005). The value of an heir apparent in succession planning. *Corporate Governance*, 13(2), 168-177.
- Bernthal, P., & Wellins, R. (2006). Trends in leader development and succession. *Human Resource Planning*, 29(2), 31-40.
- Buckingham, M., & Vosburgh, R. M. (2001). The 21st century human resources function: It's the talent, stupid!. *People and Strategy*, 24(4), 17-23.
- Cairns, T. (2011). Who's up next? Most companies fail to plan for leadership succession. *Employment Relations Today*, 38(2), 27-34.
- Carey, D. C., & Ogden, D. (1997). Succeeding at succeeding yourself: A synthesis of best CEO succession practices in 12 leading U.S. corporations. *Business & Company Resource Center*, 22(1), 72-76.
- Miller, D. (1993). Some organizational consequences CEO succession. *The Academy of Management Journal*, 36(3), 644-659.
- Chau, K.W. (1997). "The ranking of construction management journals." *Construction Management and Economics*, 15(4), 387-398.
- Chavez, J. (2011, February). The case for succession planning. *Strategic Finance*, 15-16.
- Christensen, C. R. (1953). *Management succession in small and growing enterprises*. Boston, MA: Harvard University.
- Dalton, C. M. (2006). A recipe for success in succession planning. *Business Horizons*, 49, 175-177.
- Daily, C.M., & Dollinger, M.J. 1991. Family firms are different. *Review of Business* 13(1):3-5.
- Dyck, B., Mauws, M., Starke, F., & Mischke, G. (2002). Passing the baton: The importance of sequence, timing, technique and communication in executive succession. *Journal of Business Venturing*, 17, 143-162.
- Duman, R. 1992. Family firms are different. *Entrepreneurship Theory and Practice* 17:13-21.

- Electrical Contracting Foundation. , & CFG Business Solutions LLC, (2001). *Electrical contracting foundation/cfg business solutions 2001 survey*. Unpublished raw data.
- Fayol, H. (1949). *General and industrial management*. New York, NY: Pitman
- Fulmer, R. (2002). Choose tomorrow's leaders today: Succession planning grooms firms for success. *Graziadio Business Review*, 5(1).
- Getz, L. V. (1995). Planning for succession. *Journal of Management in Engineering*, 11(3), 13-17.
- Groves, K. S. (2006). Integrating leadership development and succession planning best practices. *Journal of Management Development*, 26(3), 239-260.
- Grusky, O. (1963). Managerial succession and organizational effectiveness. *American Journal of Sociology*, 69(1), 21-31.
- Grusky, O. (1961). Corporate size, bureaucratization, and managerial succession. *American Journal of Sociology*, 67(3), 261-269.
- Grusky, O. (1960). Administrative succession in formal organizations. *Social Forces*, 39(2), 105-115.
- Hadelman, J. & Spitaels-Genser, E. (2005, September). Succession planning: The art of transferring leadership. *Trustee*, 58(8), 15-19.
- Hall, D. (1986). Dilemmas in linking succession planning to individual executive learning. *Human Resource Management*, 25(2), 235-265.
- Hansen, R., & Wexler, R. (1988). Effective succession planning. *Employment Relations Today*, 15(1), 19-24.
- Handler, W. C., & Kram, K. E. (1988). Succession in family firms: The problem of resistance. *Family Business Review*, 1(4), 361-381.
- Hartley, D. (2004). Tools for talent. *T + D*, 58(4), 20-22
- He, X., Wang, Z., Mei, L., & Lian, Y. (2010). The impact of founder turnover on firm performance: An empirical study in china. *Journal of Chinese Entrepreneurship*, 2(2), 148-164.
- Hubler, T. (1999). Ten most prevalent obstacles to family-business succession planning. *Family Business Review*, 12(2), 117-122.

- Ibrahim, A. B., Soufani, K., & Lam, J. (2001). A study of succession in a family firm. *Family Business Review*, 14(3), 245-258.
- Kesner, I. F., & Sebra, T. C. (1994). *Executive succession: Past, present & future*. *Journal of Management*, 20(2), 327-372.
- Kets de Vries, M.F.R. 1993. The dynamics of family controlled firms: The good news and the bad news. *Organizational Dynamics* 21:59-71.
- Kirschner, S., & Ungashick, P. (2005). How to get construction company owners to actually do some succession planning. *Construction Accounting & Taxation*, 15(1), 5-13.
- Lee, K. S., Lim, G. H., & Lim, W. S. (2003). Family business succession: Appropriation risk and choice of successor. *Academy of Management Review*, 28(4), 657-666.
- Leibman, M., Bruer, R. A., & Maki, B. R. (1996). *Succession management: The next generation of succession planning*. *People and Strategy*, 19(3), 16-29.
- Linowes, J. G. (1998). Leadership in transition preparing your firm for your successor. *Journal of Management in Engineering*, 14(5), 20-21.
- Mahler, W. (1980). Management succession planning: New approaches for the 80' s. *Human Resource Planning*, 13:221-227.
- Miles, S. A., & Bennett, N. (2007, November 09). *Best practices in succession planning*. Retrieved from [http://www.forbes.com/2007/11/07/succession-ceos-governance-lead-cx\\_sm\\_1107planning.html](http://www.forbes.com/2007/11/07/succession-ceos-governance-lead-cx_sm_1107planning.html)
- Miller, D. (1993). Some organizational consequences ceo succession. *The Academy of Management Journal*, 36(3), 644-659.
- Morris, M. H., Williams, R. O., Allen, J. A., & Avila, R. A. (1997). Correlates of success in family business transitions. *Journal of Business Venturing*, 12, 385-401.
- Olden, R. E. (1992). Introduction to ownership and transition. ii: Succession and firm valuation. *Journal of Management in Engineering*, 8(4), 376-383.
- Qu, S. Q., & Dumay, J. (2011). The qualitative research interview. *Qualitative Research in Accounting & Management*, 8(3), 238-264.

- Rothwell, W. (2010). *Effective succession planning: Ensuring leadership continuity and building talent from within*. (4th ed.). New York, NY: American Management Association.
- Sambrook, S. (2005). Exploring succession planning in small, growing firms. *Journal of Small Business and Enterprise Development*, 12(4), 579-594.
- Schleifer, T. C. (1999, October). Construction company life cycles: Stages of growth. *Constructor*, 38-42.
- Schleifer, T. C., & Badger, W. (2011, September 29). Interview by A.J. Perrenoud [Personal Interview]. Succession planning. , Tempe, AZ.
- Schrader, C. R. (2006). Keys for effective succession planning. *Qualified Remodeler*, 32(2), 19.
- SFGate. (2011, February 06). *Succession planning few, executives say*. Retrieved from [http://articles.sfgate.com/2011-02-06/business/27104573\\_1\\_bloomberg-briefing-succession-releases-quarterly-results](http://articles.sfgate.com/2011-02-06/business/27104573_1_bloomberg-briefing-succession-releases-quarterly-results)
- Sharma, P., Chrisman, J. J., & Chua, J. H. (2003a). Predictors of satisfaction with the succession process in family firms. *Journal of Business Venturing*, 18, 667-687.
- Sharma, P., Chrisman, J. J., & Chua, J. H. (2003b). Succession planning as planned behavior: Some empirical results. *Family Business Review*, 16(1), 1-16.
- Skipper, C. O., & Bell, L. C. (2008). Leadership development and succession planning. *Leadership and Management in Engineering*, 39(3), 77-84.
- Smedley, L.T. (1974). The patterns of early retirement. *AFL-CIO Federationist*, 81(1), 1-6.
- Steiker, J. G. (2004). ESOP's for liquidity and succession in engineering firms. *Leadership and Management in Engineering*, 4(3), 110-114.
- Sobol, M. R., Harkins, P., & Conley, T. (2007). *Linkage inc's best practices for succession planning: Case studies, research, models, tools*. (1st ed.). San Francisco, CA: Pfeiffer.
- Taylor, T., & McGraw, P. (2004). Succession management practices in Australian organizations. *International Journal of Manpower*, 25(8), 2004.

- Thompson, M. W. (2002). Integrity and vision of firm's founders ease leadership transitions. *Leadership and Management in Engineering*, 2(2), 38-41.
- Toor, S., & Ofori, G. (2008). Leadership for future construction industry: Agenda for authentic leadership. *International Journal of Project Management*, 26, 620-630.
- Trow, D. (1961). Executive succession in small companies. *Administrative Science Quarterly*, 6(2), 228-239.
- Ward, J. L. (1987). *Keeping the family business healthy: how to plan for continuing growth, profitability, and family leadership*. (1st ed.). San Francisco, CA: Jossey-Bass.
- Weisbach, M. (1988). Outside directors and CEO turnover. *Journal of Financial Economics*, 19;431-460.
- Wiersema, M. F. (1992). Strategic consequences of executive succession within diversified firms. *Journal of Management Studies*, 29, 73-94.
- Yankov, L., & Kleiner, B. H. (2001). Human resources issues in the construction industry. *Management Research News*, 24(3/4), 101-105.

APPENDIX A  
RESEARCH PARTICIPANT EMAIL INVITATION

ELECTRI International is funding a research effort into succession planning for electrical contractors. This research is being conducted by Kenneth Sullivan of Arizona State University. The research is focused on succession of Presidents/CEO/Ownership. This research was voted upon with our membership, and so we know it is of great interest and value. Please help us make it a success! We are requesting your participation in the research effort.

### **What are the expectations of a volunteer?**

1. Minimal time commitment
2. Help guide the research (e.g. should it consider ESOPs, best methods for father-son transfers, etc.)
3. Ideally those with experiences who have gone through or are currently engaged in succession efforts for leadership. These individuals should be willing to share their story, lessons learned, what worked, what didn't work, etc.
4. Work with the research team to review findings and provide a "reality check"

### **Who can help?**

- Individuals who have personal experience in succession efforts of leadership (good or bad)
- Individuals or companies currently preparing for a succession of leadership (President/CEO/Ownership)
  - Individuals or companies currently engaged in a succession effort
- Individuals or companies who have recently gone through the succession process for a leadership change
  - Individuals or companies with an interest in succession planning and execution

### **Who do I contact?**

If you wish to volunteer or would like to learn more please contact Anthony Perrenoud at [aperreno@exchange.asu.edu](mailto:aperreno@exchange.asu.edu) **or** call at 480-965-8196  
Thank you



APPENDIX B  
INTERVIEW QUESTIONS

Name of Interviewee –

Construction Firm –

Size of Company –

Number of Employees -

#### Beginning of Succession

1. Name of Predecessor and what sparked the predecessor to retire?
2. Amount of time predecessor began to think and prepare for succession?
3. What was the Predecessors initial desire for ownership transition? Did he/she want to sale the business, hand it over to family, or hand it over to key employee?
4. Why did the predecessor select the successor?
  - o Age of new guy when selected
5. How was the decision to transfer Ownership made?
6. How was the decision to transfer management made?
7. When did the new guy know he was selected, when was it publically known?

#### Succession Planning

8. When did Planning begin?
9. Was it a formal plan (written down)?
10. Did the plan include a schedule of tasks for succession, and was a specific date set for succession?
11. Was the plan followed? How often would they meet to go over the plan?

12. How well was the plan followed and would there be something they would do differently if they had to do it again?
13. What preparations were included in the plan to prepare the new guy?
14. Successors Past experience in the company or industry?
  - Where did the new guy start, how many years been involved?
  - Any strategic leadership opportunities specified to prepare new guy?
15. What responsibilities were required of the predecessor to help successor?
  - Any mentoring from the old guy? Formal, informal?

#### Transition Period

16. What was the plan for the predecessor after the transition? Was this plan followed?
17. Anything that should have been handled differently? Successors view point vs. Predecessors view point?
18. How long between Actual official hand over and the Predecessor completely disengaging?
19. How did the Successor handle the transition?
20. Any Surprises?
21. Was there any sudden changes made with management with the new successor?
22. How well was the transition handled?
  - Any official feedback, unofficial feedback or critiques during succession preparation?

- Mistakes, things that might be done differently
23. Did any senior management leave the company within the same time of the transition?
24. Were there certain things that the old guy did that were lost? Relationships? Instincts, Expertise, etc?
- Did the company feel these losses? Were they anticipated? How long did it take to overcome or readjust?
  - Were there certain things that he did that had become part of the company, permanent, that it did not matter that he left?
  - Were there certain things that he did that had to be transferred and learned to you, to others? How was this handled?
25. Reaction to the transition:
- Employees' reaction – how was this prepared for, what actually happened, what went well, what would you have done differently
  - Clients' reaction – how was this prepared for, what actually happened, what went well, what would you have done differently
  - Subcontractors' reaction – how was this prepared for, what actually happened, what went well, what would you have done differently
  - Unions reaction – how was this prepared for, what actually happened, what went well, what would you have done differently
  - Suppliers' reaction – how was this prepared for, what actually happened, what went well, what would you have done differently

- Bonding Companies' reaction – how was this prepared for, what actually happened, what went well, what would you have done differently
  - Lenders'/Financial institutions' (insurance, etc) reaction – how was this prepared for, what actually happened, what went well, what would you have done differently
26. Advice for others? Advice for the new guys? Advice for the old guys?

| #  | Top Ten Succession Planning Practices                   | Yes/No |
|----|---|--------|
| 1  | Prepare a succession plan                               |        |
| 2  | Analyze and select quality candidates                   |        |
| 3  | Prepare a plan to develop successor                     |        |
| 4  | Prepare well defined/communicated responsibilities      |        |
| 5  | Secure senior level support                             |        |
| 6  | High level of communication                             |        |
| 7  | Talent management processes in company                  |        |
| 8  | Capture the vision of company                           |        |
| 9  | Measure performance before and/or after succession      |        |
| 10 | Agreed responsibilities of predecessor after transition |        |