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# Best Practices



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## How to Implement an Ownership Transition Without Disrupting Your Organization

by Michael McLin, Maxim Consulting Group

Ownership transition is often one of the least considered aspects of managing a firm, but it is the most critical in terms of realizing one's personal retirement goals and continuing the business for the next generation. Ownership transitions cannot be snap decisions, even within a successful firm. You must make a conscious decision to leave—long before you are ready to do so. For the firm to continue to be successful without its founder, a thoughtful transition needs to be implemented, especially so as not to disrupt your organization. The prospect of change can be daunting. But if managed correctly, the process doesn't have to be painful. In today's fast-paced society, the difference between success and failure can lie in a company culture's ability to adapt which requires an intimate understanding of the human side, as well—the company's culture, values, people, and behaviors that must be changed to deliver the desired results. Many senior executives recognize this, and it worries them. CEOs often wonder about "how the workforce will react," "getting my team to work together and pull this off," "leading my people through this," "retaining our unique values and sense of identity," or "creating a culture of commitment and performance."

Any transformation of significance will create people issues. New leaders will be asked to step up, jobs will be changed, new skills and capabilities must be developed, and people will be uncertain and will resist. Dealing with these issues on a reactive, case-by-case basis puts speed, morale, and results at risk. A formal approach for managing change—beginning with the leadership team and then engaging key stakeholders and leaders—should be developed early but adapted often as change moves through the organization.

The following checklist provides direction to those planning an ownership transition with limited disruption.

### Begin the Planning Early

Train your replacements. That's the best way to assure that you'll be able to move out of the company.

In the professional world, one essentially chooses either to start a company or to work for someone else. The decision often comes down to determining if you have an entrepreneurial drive and a willingness to accept the risks that go along with starting a business.

When it comes to planning the transition of a firm, the owner must find ways to imbue next-generation leaders with the necessary entrepreneurial spirit and encourage them to assume the associated risks. Naturally, a tolerance for risk comes with increased knowledge of the business, real-world experience, and mentoring.

While it is often necessary to identify more than one new leader to assume the many responsibilities that the owner may have previously held, it is important that only one of those new leaders be charged with the overall leadership of the firm going forward. Firms that have transitioned with more than one executive have not been as successful as those headed by a single person who carries both the responsibility and the authority to act on behalf of the firm.

It seems logical to assign each team member a single aspect of the management of the firm: people, finance, design leadership, process, and technology.

### Consider Letting Opportunities Determine the Timeframe

An employee stock ownership plan is a great financial vehicle used to transfer ownership at a company. An ESOP

transition could happen in two phases to provide the company the financial capability to manage the debt. This can also allow continued interest in the fortunes of the firm throughout the transition and involve employees to keep them feeling valued and represented during times of change.

### The Cultural Transition May Be Difficult

In some ways, it's easier to hire an outsider to take over the firm than it is to elevate an insider to a leadership position. Work relationships that were formerly tight-knit can or might be necessarily curbed. But with additional authority can come additional responsibility, and the interpersonal chemistry necessarily required change. To make clear-minded decisions, the management team needs to take emotions out of the equation. This can be initially difficult to navigate.

Transition to a new leadership group will potentially be difficult for many staffers, as well. Often the trust and confidence placed in the original founder needs to be built anew with both clients and staff. In every communication of a potential change, new leaders must be quick to acknowledge the success of the previous owners and the opportunity to build on that success.

### Avoid Abrupt Changes to the Business Model

Construction cultures are unique, each built on the sensitivity that the practitioners share: emotion, vision, balance. It is important to communicate changes long before they occur, to work out the possible implications, and to prepare the staff well in advance. Communicate clearly to staff how decisions would be made and by whom. Still, it can be difficult for all involved to get used to this idea.

## Communication Is the Key

We know this to be true in every aspect of a business, but it is especially critical in a transition. Make continual announcements at staff meetings and electronically to prepare staff for the transition. Make the appointment of the next leadership team at event and lay the groundwork with staff well in advance so that promotions are understood and anticipated.

Often, it's best to hear messages about transition from other individuals who have been through it before or who have an area of expertise. Bring in transition consultants to answer questions. Use the knowledge of speakers and trainers to support the decisions being made and build confidence in the new leadership team. Talk to employees often about what the transition will mean to them.

One tip for individuals who will be taking the reins: Don't over-communicate to staff.

## Be Decisive

Whether receiving or giving authority, make decisions decisively so staff is aware that all options have been considered and the best course of action has been chosen.

Having said this, the new team often still checks with key staffers when a major internal decision is being made. New equipment purchases, maternity policy, markets to pursue, and the like—all of these can be more effectively realized by taking advantage of the collective intelligence of the staff.

If you choose to tap into staff this way, however, make sure you inform them to what level their input is being considered; ultimately, the final authority for a given decision will rest with the management team. While there are certain things that can be decided by the entire staff, major decisions must be made authoritatively by management.

## Make Changes Quickly, and Make Them Stick

There are undoubtedly some nagging issues that need to be resolved: better communication tools, maybe a new staff intranet, upgrades to technology, even something as simple as painting a wall or a more relaxed dress code. Your staff needs to know that things will change, and that those changes will be beneficial to them.

If you have ideas to expand on your current service offerings, develop partnerships with other design-centered organizations, or even redefine your core service offerings, it will be incumbent on the new leadership team to prove to the staff that those ideas are viable before they are widely adopted. Larger scale changes such as these need some time to percolate; make sure you provide regular updates to staff on progress toward these initiatives.

## Grow Faster Than the Firm

Leaders not only need to be in the habit of accepting risk, communicating proactively, and being decisive, but they also need to take advantage of every opportunity for leadership training and development.

Make sure there is a new peer support system to aid new leaders. Be sure to take leadership positions in professional organizations and spread your knowledge to peers, becoming not only an industry leader but also a leader in the community where you live and work. Stepping up in this way can only enhance your knowledge, reputation, and abilities, allowing you to give back to the communities you serve.

## For Those Who Stay, Begin Planning Transition Now

Ownership transition is not an instantaneous process; it is now important to identify, encourage, and cultivate the

next round of leaders. The business will continue to grow and thrive, and future leaders will make themselves known as time passes.

Training those replacements is important but encouraging them with proper compensation is also key. Once you've identified the next generation, it's important to keep them on staff. There is nothing as disastrous as one or a group of employees suddenly deciding to be entrepreneurs and breaking off from the company, only to become competitors. Ensure your investment by mentoring and discussing leadership opportunities early and often.

Also consider generational differences. Are you building the kind of company that the next generation of leaders will want to inherit? Do you need to make changes to policies, physical office space, or your client list that will motivate and excite potential leaders? We know that everything changes; communicating your openness to change and responding to the needs of the next generation will be a big factor in keeping them on board.

Ultimately, change is an important ingredient to any organization's growth and progression. All change will involve some disruption. To achieve success with a change initiative, the level of disruption must be managed and tempered by managers. They must remain conscious of and be prepared for the disruption it can bring but not let that disruption become a blockage to realizing benefits of change.

*Maxim Consulting Group welcomes the opportunity to assist subcontractors with their ownership succession. Michael McLin can be reached at (303) 688-0503 or [michael.mclin@maximconsulting.com](mailto:michael.mclin@maximconsulting.com).*

MAY 7TH, 8:10 A.M.

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