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Addressing the Big Shifts of Ownership Transfer and Succession Management

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How to effectively recognize and address the major, underlying shifts associated with ownership transfer and succession management in the E&C environment.

To be most effective, succession planning requires foundational groundwork that includes preparing the organization for effective leadership transitions and ownership transfer, focusing on change readiness, clarifying a vision for the future, and creating roles that drive organizational success and market differentiation.

In many cases, those leaders who rally around the "transactional" side of succession management (and the ownership transfer itself) overlook the need for the large, fundamental shifts that come along with such big organizational changes. Each shift requires effective change management and must be addressed to ensure the highest chance of success. Here are four primary shifts that companies typically experience when a current leader hands over the reins:

The transition of the current leader out of his or her role
When the owner or CEO is moving out and moving on, the organization must brace itself for myriad change issues. First, that individual may have been the initiator of business strategy and the key character in driving implementation of a particular vision. However, when the current leader is planning to transition out, the organization must reassess its vision for the future. It is possible that with changes in the external environment, government regulation, labor availability or new technology, big picture plans will need to be revisited. Strategy may change, for example, and effective communication about that strategy transition will be necessary to build support from employees, customers, suppliers, investors and the community. When an owner or CEO is moving out, there are also changes in relationships. Those who have invested their lives in building an organization have established effective relationships that bridge the professional and the personal. Keep this in mind as you prepare for the eventual transition and the subsequent impacts.

New leader = new competencies

The competencies required of the next CEO may be different, which means that you will not be looking for a clone of the current leader. Leadership skill sets and style may change to fit the revised vision for the future of the organization. Setting effective expectations for the new leader's role will help to build readiness for that person while also generating a more supportive environment where his or her new plans can be embraced and implemented. When a new leader steps in, he or she is ready to make a mark. With a beloved leader moving out, it will take time for the "replacement" to build the same depth of relationships in just a short time. If the replacement hails from outside the organization, there are organizational memory nuggets and culture nuances that the individual will need to learn. To promote success, ensure that the incoming leader is celebrated and embraced for the distinct competencies that he or she brings to the role, and that the existing leader makes space for the newcomer. Having a well-loved exiting leader endorse the incoming person and emphasize the need for change will help prime the organization for change readiness.

Individuals, teams and culture adapting to a new leader

When a new leader comes in and plans to implement a new strategy for business success, he or she may be changing "the way things are done around here." Such shifts mean that individuals and teams may be pushed to focus on a new set of priorities. If the successor arrived through internal promotion, for instance, there may be initial reluctance to visualize the new leader fully ensconced in the new role. As such, it may take time to transition away from legacy role issues unless there are clear handoff arrangements made.

An organization that's resistant to change

If you aren't intentional about managing change, a number of negative impacts will be felt across the organization. For example, if the individual leaving a role decides to stick around and not let the successor really experience the full domain of the role, then the transition may be rocky. Other challenges include:

- The individual entering the role may not be aware of all the elements in his/her role that could shift (e.g., new relationships to form, new processes to address, new way of life to adjust to).
- Employees who are unaware of the need to make a shift in the competencies at the head of the organization may not embrace the shift, instead focusing negatively on the new leader's approach and style.
- The organization may resist the new leader's ideas. Individuals may continue to go around the new leader and go to the old leader if the latter doesn't encourage a shift.
- Those who had thought they were in line for a key role may be distressed about being passed over.

Six Ways to Overcome Transition Obstacles

The good news is that by understanding resistance, understanding loss, acting with intentionality around change, building a change mindset and taking other steps to ensure an effective transition, E&C companies can overcome these issues and move onto their next chapters.

Here are six ways to make this happen:

1. **Understand resistance:** Organizations typically see resistance when they make major changes. Examples of resistance that we notice in FMI client organizations around succession management include:

At the organizational level:

- Resistance to changing the organization's strategy. The existing business strategy led to the success of the organization; maintain it, don't mess with it.
- Resistance to changing the structure and roles in the organization; the existing leadership roles should simply be refilled, not re-evaluated.

At the functional level:

- Resistance to leveraging the power of a board of directors; it will interfere in our business and tell us what to do.

At the group level:

- Resistance to sharing ideas that don't fit with the status quo; to be viewed as committed to the organization, people are expected to share only ideas that the group will support.

At the individual level:

- Resistance to hiring leaders with a different set of competencies; replacement leaders should be just like the current leaders.
- Understanding where resistance is likely to come from will help you face those obstacles head-on, share information about the real benefits of specific changes, and manage change readiness.

2. **Understand loss:** When you begin to talk about or implement an organizational change as part of ownership transfer and succession management (OTSM), people pay attention to the things they will lose. Some of the actual or perceived losses we hear about at FMI include:
   - Turf
   - Status
   - Resources
   - Autonomy
   - Security
   - Relationships

   Since these shifts are felt as losses, people grieve in a way that parallels stages of personal loss, albeit on a different level. They may be in denial about the change, get angry, try to engage in bargaining, feel depressed or move more quickly to acceptance. Understanding what individuals stand to lose will help you to plan for and potentially remedy those losses and to manage change readiness.

3. **Act with intentionality around change:** By increasing intentionality about change at all levels, you can help ensure a successful transition. Organizations can leverage what they know about change to support ownership transfer and succession management. Success rates on organizational change initiatives are low and do not appear to be improving.[1] Succession management and ownership transfer can involve tremendous change, and having your organization respond positively is crucial. Setting your organization up for responsiveness requires assessing and priming organizational change readiness.

4. **Tell people why the change is occurring:** Help your organization understand why you are making succession management or ownership transfer plans. A few of the recent change drivers that you can discuss include:
   - **The competitive environment**—Organizations that are embracing new technologies are seeing efficiencies that drive success; there is pressure to keep up, and leaders need to have the competencies to operate in a changing competitive environment.
   - **Economic issues**—Low unemployment rates mean that there are available jobs in other industries; unless we build career paths within the organization, we may not retain "high-potential" individuals in the organization or industry.
   - **Political changes**—Under a new administration, there is the high potential for government policy shifts that may affect work and workforce planning.

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[1] Al-Haddad, S., & Kotnour, T. (2015). Integrating the organizational change literature: A model for successful change, "Journal of Organizational Change Management," 28(2), 234 – 262.

- **Globalization**—Global-minded businesses are seeing a need to diversity their workforce to meet the needs of a diverse customer base.
- **Demographic shifts**—With millennials now making up the majority of the U.S. labor force, organizations are feeling pushed to change their culture to work effectively across a range of demographics.
- **Social change**—Increased awareness of women's rights issues in society means that male-dominated industries are now being pushed to confront any inequality in opportunity.
- **Ethical dilemmas**—As family businesses look to shift ownership when the founder is nearing retirement, they are looking for a succession management and ownership transfer plan that appropriately balances the needs of different stakeholders (family members, owners, investors, employees, customers, the community).

Fully understanding why you need to make changes will help your organization articulate the need for change. Doing so will help in the "unfreezing"[2] of the organization, an important step in preparing for change. Research shows that clear communication on transformation objectives is effective in engaging employees in the organization's transformation.

5. **Build a change mindset:** Have a change readiness mindset that places embracing change at the top of your organization's priority list. To build a climate that supports a culture of embracing change, a combination of tactics might be implemented, including:
   - Visible formal statements on the organization's philosophy around embracing change.
   - Leaders paying attention to and giving credit for embracing and driving change.
   - Performance evaluation and promotion criteria that reinforce the organization's value of a change-readiness mindset and change-implementation success.
   - Recruitment materials and selection processes that reflect the organization's value of a change-readiness mindset.
   - Orientation processes that establish a change-readiness mindset and development activities that reinforce that mindset.

   When an organization's culture embraces change, employees are better-equipped to respond positively and the focus can move to the question, "How are we prepared to deal with change?"

6. **Frame the change:** Be explicit and clear about the change before it happens, during the transition itself and after it is complete. Appropriate change framing through effective organizational communication and support structures will build support and, with that, readiness for change. Research has shown that one characteristic of successful change efforts is that leadership communicated clearly about the change.

It's not only communication of the change—but also the stakeholder buy-in regarding the change—that drives success. As such, the communication strategy should involve key stakeholders to map out key messaging, a timeline of activities to cascade the changes, and the establishment of avenues for employees and other involved parties to share their opinions. This allows the organization to be clear about the changes and its plans for implementation, and reinforces the willingness by the organization to hear feedback from employees and others who might be affected. Involvement also helps, so make sure you've thought through how you will retain key talent, especially where individuals have been looked over for promotion. And remember, human resources should be strategic partners and not an afterthought.

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[2] Lewin, K. (1947). Frontiers in group dynamics: Concept, method and reality in social science; social equilibria and social change, "Human Relations," 1(5), 5-41.

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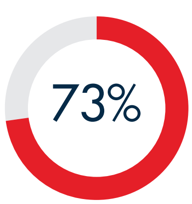

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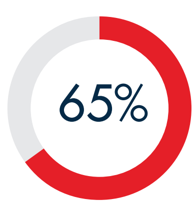

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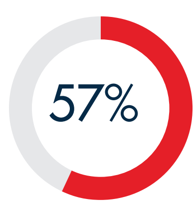

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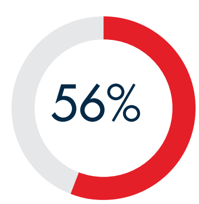

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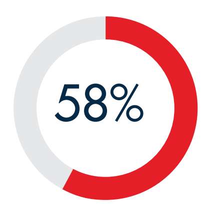

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