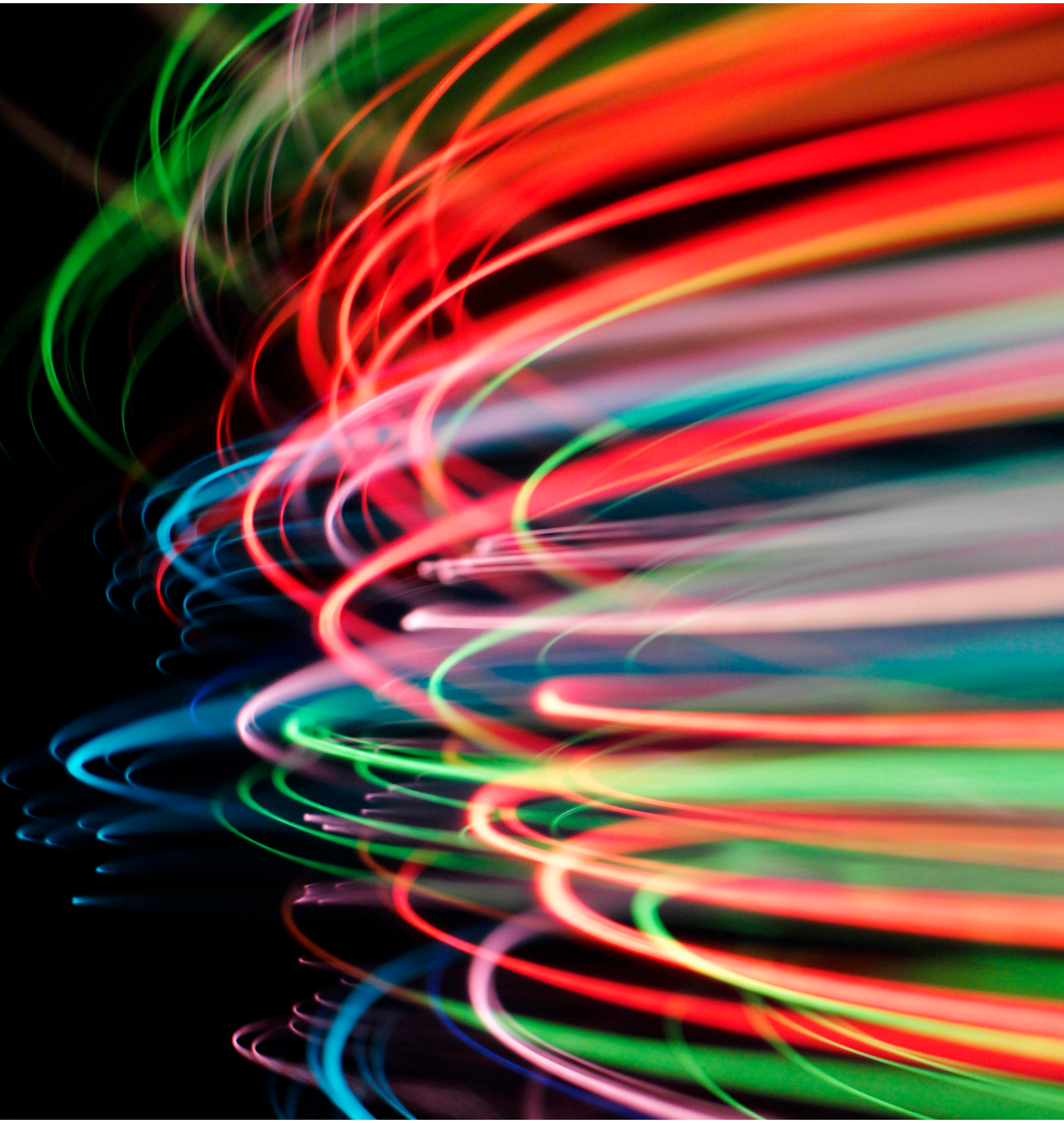
# **The Continuity Mindset:** Managing Succession for Lasting Organizational Success

**By Jake Appelman and Sara Tsahakis**



Transitioning a business to a new generation of leaders, no matter what decade you are in, has always been a multifaceted, emotional and intricate process—one that is easy to put off due to the anxiety it can generate. On that front, the landscape in the Built Environment hasn't changed much since we wrote this article. In the last three years, the industry has seen an even more dramatic shrinkage of the talent pool, and there are still relatively few options to move equity in the construction industry. According to our most recent data, only about 5% or fewer firms in the industry are salable and around 60%-70% can sell internally. This leaves 25%-35% of firms in a position where they must liquidate.

As a rule, the succession process is much bigger than simply appointing a new leader to a role. It also often involves making changes in the organizational structure, transitioning internal and external relationships, and making tough decisions around the ownership transition. This process should be set in motion seven to 10 years prior to the official passing of the leadership and/or ownership baton (especially if you have never done it before).

While this article was written in a strong market that is now slowly cooling off, the key steps for the continuity of a business remain constant:

1. Clarify your vision: Make sure you are crystal clear on where you want your business to go, even after you leave.
2. Understand the necessary leadership roles: Given the vision, what are the requirements to lead?
3. Evaluate potential successors rigorously: More than anything else, the continuity of the business depends on the quality of future leadership.
4. Accelerate future leader development intentionally: To ensure readiness, you need more than just organic growth.
5. Don't spend all your time defining what you are moving from (the business); also clarify what you are moving toward (after exiting the business).

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*At its core, succession is a deeply emotional process for leaders. For seasoned executives, it often requires reflection and insight into one's career journey and legacy.*

Perhaps not surprisingly, given the weight of the process, leaders avoid this necessary introspection, in favor of the more tangible decisions needed to transfer a business to the next generation. For example, leaders often dive into identifying and executing on equity transfer techniques, buy/sell agreements and organizational structure changes while neglecting a critical part of succession needed to guide the organization to lasting success beyond transactions: a continuity mindset.

We define a continuity mindset as "a frame-work of thinking that informs and guides the many critical decision points in a transition." This article sheds light on the importance of developing and utilizing a continuity mindset in today's business environment, where succession is often approached hastily or completely overlooked.

## The Common Mindset

Through our research and work with E&C firms, we often observe senior leaders thinking more deeply about succession when the process coincides with specific milestones. For example, most senior leaders start reflecting about succession when they are considering transferring ownership and transitioning into retirement. Transferring ownership generally means that owners choose among three options:

1. Sell the company to internal members (employees or family members)
2. Liquidate the business
3. Seek merger or acquisition options

Since it can be challenging to liquidate and still yield rewarding financial benefits, E&C leaders generally feel that selling internally or using mergers and acquisitions is the more desirable choice. The viability of these choices also depends on the quality of the organization's current and future leadership.

Like most talent-related decisions in the E&C industry, succession decisions are often based on instinct and tend to be highly emotional, especially when leaders hope to pass the business along to a family member or trusted partner. These emotional factors can cloud the use of facts and data to pick the right successor to lead the business into the future. As a result, companies will often promote people before they are ready, pick the wrong successor, or lose talent due to perceptions of a poorly handled succession management process. All of these hurdles can be avoided through the use of a well-thought-out, fact-based approach to succession, and one that incorporates the continuity mindset into the equation.

In most situations, a bench of star performers or high potentials will fall short on the succession plan. That's because, while these candidates may represent top talent, they may not be aligned with the skills and competencies needed to lead the company to success in the future. Furthermore, winning the battle for talent means having the right people in the right place and at the right time in the first place, not simply having "lots of great talent." To overcome this perception, organizations must fine-tune their talent strategy for key positions and prioritize succession management efforts by building the bench for those specific roles, since they will serve as important business differentiators.

Succession is often viewed as simply picking a successor for the top leader (the CEO or president); the focus is usually superficial and emphasizes mostly replacement. However, good succession goes beyond putting a new leader in place. It also includes the conservation of a company's culture and values, the identification and development of future leaders for all key roles, and a smooth ownership transition. This type of transition is key to a company's success and requires a well-thought-out process to ensure that all of the pieces are in sync.

The effective organization makes succession decisions based on facts and data, focuses its attention on strategically important positions, and takes a holistic and proactive approach when looking at the organization's succession requirements. Embracing a continuity mindset will help prepare the organization for effective succession management and ownership transfer.

## The Continuity Mindset

Embracing the continuity mindset means establishing the necessary groundwork to prepare the organization for effective succession, including both leadership transitions and ownership transfer. It incorporates both data-and fact-based decisions that serve the company's long-term interests, even when those decisions are immediately unpopular or misunderstood. This goes as far as setting the leader transition in motion and seeing it through to the successful integration of individuals in their new roles, including the preservation of values and culture. These steps must be carefully orchestrated and then revisited whenever the strategy changes. Ultimately, individuals who possess continuity mindsets see leadership and ownership of a firm as a privilege and an ongoing responsibility to steward the organization for future generations.

## Clarity of Intent Is Critical

Our decades of experience guiding engineering and construction (E&C) clients through transitions have shown us that leader clarity of intent is crucial. Complete clarity of vision around the future company (e.g., the intent to maximize wealth) will drive a much more coherent and unified transition than an owner who speaks of continuity (but is unwilling to act from a continuity mindset because his or her focus is on something else). Effective leaders do not take continuity lightly and recognize that following that path is a conscious choice that takes place with a full understanding of the requisite courage, humility and long-term focus.

FMI's Peak Succession approach (see **Exhibit 1**) is built on a continuity mindset approach, which, on top of picking a successor, incorporates factors such as ownership transfer, preservation of the company's

## Exhibit 1. Peak Succession


Source: FMI's Leadership and Organizational Development Practice

culture and values, strategic identification of critical positions to replace, and fact-based selection and development of successors. In this approach, leaders must move away from gut instinct, intentionally create a wider pool of talent to meet tomorrow's challenges, and view succession as a system and organizationwide process versus a one-time reactionary decision.

## Continuity Mindset in Action

There are several steps that companies can take on the path to good succession planning that incorporate a continuity mindset. They are:

***Think Strategic Roles, Not High Performers***

After establishing a clear vision for where the organization is going (part of essential groundwork), the succession process begins with the identification of strategic positions. This allows companies to focus on identifying every role that has a major impact on the company's strategy, rather than just looking at those roles facing imminent need for replacement. At this step, taking a continuity mindset means looking at the positions, not the people. When thinking about a business's strategic positions, the primary focus should be on the roles that directly impact strategy and not necessarily on the company's current star players. Take Joe, a current CEO, for example. Due to retire in three years, Joe has successfully made the company into a leading, national player, but he lacks international experience in an era where the company's new strategy includes major international development. While replacing Joe, we need to tailor the future CEO role to the new strategy and ensure that we hire for strategic fit. Instead of looking at the succession process as cloning Joe, for example, the company needs to look at the broader skill set required for the new CEO role in this global context.

In these situations, executives typically pay attention to high performers (A players) who come to mind when they think about getting something done. While those individuals may seem like the obvious choice for today, they may not produce the optimal company results in the long term. Focusing on the latter helps organizations maintain objectivity and keeps the focus on what roles will contribute most to future strategy (instead of who's performing well right now). After all, the envisioned future of the company should bring new challenges that may require a different set of skills. That's what business is all about, right?

Now it's important to note that this process also requires a shift of focus—from A Players to A positions—to identify roles that are critical for organizational success and that need a succession plan.[1] This means identifying the roles that are key to driving and executing the strategy, and then identifying the individuals who are good fits for those positions. Of course, your A players might be the best candidates for these A positions, but the role identification should come first. (It is possible that given a shift in the competitive environment or changes in technology, looking outside the organization might provide a candidate who better supports a role of the future.)

### *Take the Time to Identify "A" Positions*

There are two main criteria that differentiate A positions:[2]

1. **They have a direct impact on strategy:** A positions have a direct impact on the company's ability to execute one or more of its strategic goals. These positions create value and contribute directly to an area that is a distinctive competitive advantage for a company. This implies that a company has clarity over its strategic capabilities—a measure that may incorporate various data points. In an organization that has customer satisfaction as a strategic differentiator, for example, these metrics can be used to identify which roles have direct impact in performance variability:
   - Existing customer satisfaction
   - On-time completion
   - Within-budget completion
   - Speed to resolution of customer problem
   - Performance in executing problem escalation processes
   - Annual recurring revenue
   - Net promoter score (percentage of clients recommending the business)

2. **They present great performance variability:** Along with having a direct impact on strategy, A positions typically present the potential for great variability in performance. For example, if a position is responsible for securing new clients, the potential for variability of performance is high. A person who performs above average can generate five to 10 times more revenue than a person whose performance is below average. Furthermore, these positions can also destroy value (i.e., losing client relationships in favor of competitors).

### *Clarifying "A" Positions*

Once you've identified your firm's strategic positions, you'll want to develop a Peak Profile for each of those roles. Peak Profiles include role requirements (what you do), technical skills (what you need to know) and competencies (how you do it). While creating these profiles might seem intuitive and something easily developed by HR functions, E&C leaders tend to overestimate the importance of technical skills and background needed and underestimate the need for managerial, leadership and people skills required by key roles. The truth is,

[1] https://hbr.org/2005/12/a-players-or-a-positions-the-strategic-logic-of-workforce-management

[2] http://www.thedifferentiatedworkforce.com/pdfs/TDW-Chapter3.pdf

both are crucial, and technical experts moving into leadership roles rarely transition smoothly in absence of adequately developed people skills. The establishment of a Peak Profile plays a critical role in rigorously assessing and developing the pipeline of potential successors for strategic positions.

Once competencies are established, the organization can make more objective and informed talent decisions, including:

1. Hiring individuals for A positions
2. Promotion choices for A positions
3. Readying individuals to transition into A positions by way of advanced executive development

***Evaluating an Individual's Potential for an "A Position"***

While many organizations use the gut instinct approach for successor selection decisions (see our recent article, "Finding the Right Leader: How to Disrupt Your Leader Selection Process"), the use of a structured approach is far more valuable for assessing candidates fairly and reliably. Assessment tools such as structured interviews and validated assessment instruments (e.g., The Hogan Battery, Pinsight Leader Simulation) are job-related and more accurate when it comes to capturing the level of individual proficiency competencies. Since competencies were identified for the Peak Profile as the key ingredients for success in a strategic position, assessment of these competencies is a useful predictor of leader performance.

***Readying Your Successor and a Broader Bench for "A Positions"***

## Criteria for Great Competencies:

- They align with organizational values
- They align with your vision for the future and your strategies for success
- They differentiate an average performer from a star player
- They should be concise and focused

Once individuals have been assessed and their potential for a future strategic role established, the next step is to provide structured developmental activities. The activities will equip identified successors for their future roles; they will advance individual development and accelerate future leaders. Specific tactics for development in the context of succession are referenced in the Quarterly article, "The Growth Mindset: Developing Your Successors With Intention, Purpose and Personal Focus."

## Start Embracing a Continuity Mindset Today

Embracing a continuity mindset and engaging in a systematic succession management approach allow organizations to minimize the likelihood of the wrong individual being put in place at the wrong time. When positions that drive strategy are identified early on, and when the competencies for success in those roles are clearly defined, the organization will be well-positioned to develop and select the best-suited individuals for the job.

Effective leaders with a continuity mindset understand that for the organization to succeed, they must make hard choices that may be unpopular in the short term. Succession management and ownership transfer for a long-term win requires courage, humility and a long-term focus. This broad and proactive approach to succession management ensures that the right people will be ready at the right time to support effective transition, whether due to planned retirement or unexpected crisis. This systematic succession approach will make the greatest impact on the market. Having the best talent in the most strategic positions—and the bench strength to fill those key roles when the time comes—drives winning organizations.

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