Successor Planning for Continuity and Survival in the US Construction Industry

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Abstract: *According to Charles Schrader, a State appointed business advisor for the last 25 years, "Studies show that over 95 percent of all construction companies are family-owned or closely held businesses." And of those business "only three in 10 family businesses survive from the first to the second generation, and only one in 10 of those survive to the third generation" (Chang, 2008). There is a major issue in the current construction world when one owner passes on his company to another owner, and as more owners begin to retire their business are beginning to slowly decline until failure. Furthermore, as the generation of baby boomers reaches retirement this problem will only be getting worse (Holmes, 2016). Many executives of construction companies are also the founders, and they typically lead their companies for 30 to 40 years. They posses a wealth of knowledge on leadership, and market conditions and they are often the key most important member within the structure of the company.(Yankov, Kleiner, 2001). However, they do not know how to successfully pass this knowledge on to the next generation (Schleiffer, Sullivan, Murdough, 2014). There is a need for a new method of organizing the way construction companies are set up, and our research is leading us to believe that successor planning is the solution to this problem. Successor planning is planning your company in such a way that it can continue to survive once you have stepped out of it (Davila, 2015). It is not a singular event but rather an ongoing system of procedures to develop future replacements (Kim, 2010). This type of planning usually looks like strategically mentoring and teaching company leaders and key players in your company to run and operate as the founder intended. This is a major problem but still few business owners actually enact successor plan to keep the enterprise thriving after they've left whether voluntarily or involuntarily (Targgart, Chapman, 2014).*

Key words: *Construction* ***industry, Labor Force,*** *successor plan*

I. Introduction

There was a survey done that indicated only 18 percent of the construction Industry executives surveyed had any formal personnel management or leadership training (Rubin, Powers, Tulacz, Winston, Krizan, 2002).Family businesses face extra considerations because younger generations may not follow in the founder's footsteps (Stanford, 2009). We can see the solution does exist, but many companies fail to execute it. In this literary analysis we are going to group our research into three groupings; Why the construction industry refuses to use successor planning, why the construction industry needs successor planning, and the steps in implementing successor planning within your company.

Even though successor planning is very important to all sorts of businesses, many companies still do not have plans in place. There can be many barriers that the owner or senior business leader sees that prevent them from doing so. Good health can be bad for creating a successor plan. When people are active and eating correctly, they seem to think that nothing bad can ever happen to them. This lets them believe they do not need to plan for when a change of leadership will occur. It will come as a huge shock to their company if they were to have an incident happen, and the company would then be in a reactive and rushed situation (Perrenoud, Sullivan, 2016). Owners may have trouble delegating their responsibilities to the employees that could be a successor. A way that owners can get around this is by leaving specifications in writing that the successor must abide by. This contract, followed with communication, will leave the owner feeling that they have made a good choice. This way, the relationship from the old to the new will be better and the amount of issues will be minimized between them. Sometimes, owners have a hard time seeking advice from and consulting with people that work with successor plans every day. They may have a fear of accepting that they are aging and will face retirement and maybe death soon (Perrenoud, Sullivan, 2016). These could seem like valid reasons to avoid planning for a successor, but planning is a necessity for all companies. One of the main reasons that businesses fail is because of their lack in planning for the predictable events in the future (Levenburg, 2009). Because owners have other things going on that they deem "more important", and focus on the pressing problems that need to be solved today and not on the situations that will come to life tomorrow, they disregard the successor plan and set their company up for a loss when they exit the business. Not having a successor plan on their to-do list means that this company, too, will be put into a rushed and reactive situation instead of a thought-out proactive one (Gao, Ergan, Akinci, Garrett, 2013).

II. Methodology

The number of CEO turnovers has been increasing heavily within the past few years due to the number of baby boomers retiring. This means that having a successor plan is extremely important for the industry right now (Rozgus, 2015). Some owners wait too long because they are afraid to lose something that they have spent many years building. Then, a few years later, if they decide to step out with no successor plan because they realize they no longer have the "drive, energy, or knowledge to adapt" (Perrenoud, Sullivan, 2016) to the industry's changing conditions, the company will be in both financial and operational turmoil (Perrenoud, Sullivan, 2016). This could mean losing hundreds of thousands of dollars, or not finding someone to take over the company and going out of business. Not only is this a huge loss for the former owner, it is also a loss for the stakeholders, the employees, the landlord, and the families of all involved (Cole, 2012). The viewpoints of all parties involved with the business must be considered. They need to make sure that a successor is ready and willing and that the families of those involved are in agreeance as well (Driscoll, 2011). Other owners feel that by giving up control, they have to give up ownership. They feel that this business is their security blanket and that creating a successor plan is just a way to strip them of their blanket. This doesn't have to be the case. By working with the voting stock and the non-voting stock in the company, the current owner can slowly find their way out of controlling most of the company and this will make it easier for them to leave. The owner will eventually end up with 1% of voting stock after they sell the rest of the stock, which is the 99% non-voting. If the case is that the owner wants to hold on to control for the rest of his life, something called a private annuity can be established where the stock will be sold to the buyers and they pay a certain amount each month for the duration of the seller's life (Kirshner, Ungashick, 2016). This can allow the owner to gradually reduce the time that they spend at the company and it gives time to transfer the relationships that they have made with clients to the successor (Banerjee, 2013). The owner may see a plan of successor as a way to limit the company's flexibility for when problems arise. This actually is not the case; planning expands flexibility! It empowers them with means to break through uncertainties that are going to arise, and it provides them with a greater understanding of what their future holds, and it can give them a pathway to try to stay on (Levenburg, 2009). Many owners believe that what they have done for the past fifty years is what caused them to be successful, and they do not want to change anything about it. And, since they haven't had a successor plan previously, they see no reason in having one now which makes it hard to get them out of the groove they've formed.

III. Results and Discussion

The competition to keep key employees on-board is intense. Top-level executives and HR departments spend large amounts of time, effort, and money trying to figure out how to keep their people from leaving (Mitchell, Holtom, Lee, 2015). This is why it is so important to maintain a good relationship with your employees, especially when it comes time to hand your business over to someone else.Different people involved in the construction industry like main contractors, subcontractors and dozens of material suppliers works at different organizations (Karami et all, 2018). Not only is it hard for owners and executives to hand over a business, it is hard on the employees of the company by fact that they may have to adjust their routine, they may lose benefits that were given by the previous owner and quite simply, they might not like the new boss in town. It is also important to leave your company in good standing with the subcontractors in the area. To protect the best interest of contracting firms, subcontractors should be carefully selected (Ng, Tang, 2008). Gaining or maintaining a "subcontractor's" competitive advantage is not easy as it is determined by a large number of factors (Lu, Shen, Yam, 2008). It is not easy to walk around and pick out a network of loyal subcontractors. When it comes to the day-to-day progress of a project, few parties play a larger role than subcontractors (Waatts, 2014). Many contractors think they can treat their subcontractors as a dispensable means to an end. This could be true in a sense due to the amount of subcontractors but in reality, when a contractor fires a subcontractor and does not give them a chance to make up for whatever they did, it can be taken harshly by the sub. If this scenario were to happen, it puts the contractor at risk of having a bad reputation go around town (Bartz, Kolby, 2010). If the owner is unable to leave the successor in good standing with his subcontractors, it makes the job of the successor extremely more difficult. Not only does it add the responsibility of locating loyal and honorable subcontractors, it increases the risk of running into more troubles down the road.

Sometimes, owners have learned a lot more than they realize from their experience in the industry. When it comes time to change leadership, they need to realize that the successor will need to gain this knowledge in the beginning in order to hold the company up with the same standards.Unfortunately, the industry is rampant with several unethical practices such as: Insufficient training, an inadequate pipeline of new labor, and the lasting effects of the recession cause that construction industry will face workforce shortage, which has a negative effect on the delivery coast and completion time. The successor will have to learn by experience over many years just like the previous company owner had done. By withholding the information, not only is the individual successor harmed, but the company is also hindered because the successor does not know what to do in certain situations (Driscoll, 2011). By using Virtual Project-Based Simulation Game, workforce could be trained (Tahersima, 2017).This is prevalent in situations involving family companies where the owner does not have a good relationship with their child. Or, even if the owner wants the child to learn on their own, it would still hinder the company(Tahersima, 2017). More with family businesses, the apparent heir may not want to be a part of the business (Liang, Wong, 2015), or maybe the heir does not have the capabilities required for the job. These are all problems that can be solved with successor planning.

What is one thing that will remain true no matter what industry or job title?However, this mean has some flaw such as technical difficulty like low speed and limit options ((Tahersima, 2018)). You will leave the company, whether voluntarily or involuntarily and someone will replace you (Kennedy, 2016). While many companies are passing the torch to the next generation, most do not have adequate successor planning. How will the company transition to new management be funded? Who will be the leader? What is the company's plan? Are incentives in place so key employees and managers do not leave? Will the next person be able to handle all of the tasks that are required? These are all questions that are very important for the years around a change in management.one of these complex entity is using double skin facades to save energy and approaching green architecture (Mehdizadeh et all. 2014). If a company cannot answer these, then they are likely unprepared for the future and have a much greater chance at failure (Rojeck, 2016). In America, for the past few years and the next ten to fifteen, there will be more of a change in management positions than in our history due to the surge of people being born from 1946-1964 (Ferguson, Morton-Huddleston, 2016). The need of successor planning comes in play when the owner would like the business to continue on past their reign. Handing down a family firm fails more than fifty percent of the time (Robbins, 2016). Storing fragile material like glasses, Glass has been used in construction since approximately 2000 years ago ((Tahersima, 2017))According to a study by the DDI, from 1988-2008, it was consistent that seventy percent of family businesses fail to pass down to the second generation, and ninety-percent of those fail to make it to the third generation. (Levenburg, 2009). By having a successor plan in place, a company can be assured that the next person in line will be prepared (Simoneaux, Stroud, 2014),that the company will have a budget plan in action for the upcoming uncertainties (Driscoll, 2011), and that the company as a whole will be more prepared for the change (Banerjee, 2013). The company with a successor plan will have a timeline that a quality transition will take place (Cole,2012), the owner can take the time to meet with his board and an advisor that knows the best way to implement a plan for that size of business (O'Brien, 2012), and it can put the owners in control of the future of their business (Kennedy, 2016). They would then know that an ideal time frame to start getting a successor on board about six years (or however many they decided would be good for their company-specific plan) before they plan to retire (Cole, 2012). By meeting with the company board with a professional successor present, the group can come together with the best plan of action for each person there in the event that something were to happen to the senior businessman at stake(Escamilla et all, 2018). Together, they could come up with a plan that will benefit all the stakeholders and they can agree to what the terms are (Bell, Skipper, 2008). In addition to having this meeting, there should be recurring meetings after the successor plan is made and agreed upon (Tejon Ranch Company, 2013). These should happen once every year or so to reevaluate the situation that the company is in, the way the industry is changing, and the changes of wants and needs of both the company and the people that would be affected by a change in management (Driscoll, 2011). It should also be noted that planning for who will take over other important positions like supervisors, managers, as well as executives is also needed for a great successor plan (Mater,Bower, Aritua, 2012). A properly structured, aligned, and positioned company with a plan that had a good team working on it will make the negative assumptions that are usually associated with change be diminished, and it would reduce taxes that can take up to fifty-five percent of the proceeds you would be leaving with (Kennedy, 2016). Every company, no matter how old they are, needs to have a plan for a successor.

IV. Conclusion

This literature review suggests that responsible management of the growth process can prevent an organization from turning into a "too big to fail" organization (Fleck, 2010). Without proper planning any organization, no matter the size, can fail or at the least have an operational or financial setback. If the company or corporation is family owned, studies show few strategic decisions in family businesses are made on purely economic grounds (Tatoglu, Kula, Glaister, 2008). At the core, family businesses are based around passing down through generations which makes one think that succession planning should not be an issue, but really, wider social roles and political constraints prevent deliberative managerial strategies from developing(Escamilla et all, 2018). Another way to look at succession planning is from the side of knowledge or knowledge attrition. If companies fail to tackle the problem of knowledge attrition it may strongly affect their survivability (Durst, Wilhelm, 2012). However you look at it, knowledge attrition or failing to plan a successor, can be detrimental to a company because there is no plan to continue past the first generation of founders.

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