

Preparing for a Succession or Transition Plan

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In order to successfully transition a closely held construction business, while still providing an exit strategy for current owners, preparation is key. In addition to the financial aspects, the identification and development of suitable replacements with the potential to fill key business leadership roles is vital for the continued growth of

any [construction company](#), and owners should plan accordingly.

Construction company owners must consider the long-term future of their business while balancing multiple, interconnected objectives. Owners and construction firm leaders should aim to optimize operational and financial efficiency when preparing for this process, in order to enhance earnings and improve cash flow throughout the transition and establish a solid foundation for the new leadership. This higher earnings potential will help to incentivize the next generation as they will see the financial rewards of becoming owners. This will also be the main factor in determining the value of the company as well as how the new owners will be able to afford their ownership by leveraging the company's earnings. With an increased operating margin and more funds for the next-generation of leadership, there can be a higher-valuation and better ROI when selling, among other benefits.

In addition, future-proofing the firm's financial, business and management systems, as well as ensuring the next-generation leadership consists of quality talent who have the right abilities and correct set of incentives and expectations, will help to streamline the process considerably. Firm leaders should also be prepared to handle interpersonal dynamics, specifically in family-owned companies.

Though COVID-19 has stalled some transition plans, construction firms should prepare for the process to maximize productivity and time. An early start on this can pay other dividends as well, such as maximization of options, flexibility and valuation. This also assists in minimizing risk and gaining consensus with buy-in from the key players in the firm as this process develops. With this in mind, a roadmap or blueprint for succession planning can be a useful tool. By developing a timeline and outlining specific traits, skills and behaviors valued in potential new leadership, as well as what the needs of the firm are, leaders can more accurately and effectively identify and execute a succession plan.

As part of this blueprint, construction firm leaders need to understand the value of their business. This can be accomplished by having a formal valuation done. This will establish a baseline for both the exiting and future owners. Furthermore, consultations with attorneys and accountants will be key in planning a transition. Decisions need to be made on the terms of the transition, including buy-in/out

amounts, length of payments, interest, earn-outs (if any) and other matters. In addition, consideration must be given to any licensing requirements, revisions to any shareholder or partnership agreements, as well as organizational responsibilities.

Those planning for this kind of process should also take into account tax considerations, including their entity's structure, basis in their investment in the company, employment agreements and alternate methods for appraisal of the company value, if needed. Allocation of time for drafting all the definitive documents, as well as time to discuss and agree on all these matters are also important in streamlining the process.

Thorough preparation for a transition process, and articulation of a coherent set of values and culture for a firm's strategy moving forward, positions construction companies to make the transition as smooth as possible and continue their success. Maintaining the company's values and culture, including firm-level management and strategic thinking are extremely important. Time must also be devoted to developing these new leaders as well as transitioning the industry connections will enable the business to continue to grow under new leadership and be positioned for profitability and growth.

Finally, this consistency and future growth potential is also an effective strategy for retaining talent during a succession process. Construction firm leaders can utilize incentive compensation plans to hold onto key talent and also motivate workers to continue the company's success under the next generation of leadership and ensure a smooth process throughout.

As the economic landscape slowly returns to a sense of normalcy, transition plans, as well as efforts to attract and retain talent throughout the succession planning process, will be all the more important. Construction firms that begin this as early as possible, with a blueprint that efficiently and effectively moves all parties through the process in a streamlined manner will see dividends down the line.