

Frequency and Timeline of Leadership Transitions within Construction Companies

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The foreseeable transition of leadership creates potential risks to the success of construction companies today. These impacts can cause turmoil financially and operationally unless minimized through efforts included in advanced planning. Research has shown that efforts starting before the leadership transition can minimize the negative impacts that come with succession. Little research on executive succession was found in the construction industry, though the industry highly depends on their key individuals to direct their companies. The research objective was to identify methods used in construction companies to improve the process of changing leadership. Twelve construction companies that have recently experienced leadership succession were interviewed and provided quantitative data on methods used. The frequency of leadership changes within construction companies was studied along with the average timeline of processes that occurred in the companies during their leadership transitions. The research findings will assist current construction companies identify the timeline and steps they can follow to assure they overcome the challenges found during the critical period of time when the predecessor hands the responsibilities down to the successor.

Key Words: Succession, Succession Planning, Executive Transition, Human Resource

Introduction

The Pew Research Center estimates that for the next eighteen years 10,000 people will turn 65 every day in the United States and that individuals that are 65 years or older will increase by five percent by the year 2030 (Cohn & Taylor, 2010). Ideally individuals 65 and older will be nearing retirement and leaving the workforce. The construction industry currently depends on a large portion of individuals that are included in this group approaching retirement age (Yankov & Kleiner, 2001). These experienced individuals represent a large portion of the executives responsible for the construction companies today. Toor and Ofori (2008) along with others have recognized the importance of preparing leaders to replace the departing owners and presidents of construction companies. It will be the company's responsibility to understand and prepare the process of transitioning leadership from the retiring executive to the incoming replacement.

Planning for the transition of leadership from the commander to the "new guy" is a critical point in the company's existence and will help prepare for the unavoidable changes within the company (Miller, 1993). Research has shown that an immediate impact most often negative can be seen during the leadership transition in some way or another. (He et al, 2010). Construction companies experiencing leadership change highly depend on their ability to minimize the potential risk involved with transferring the controls from one individual to another. Often only transferring management from one to another is thought about with leadership transition, but it also includes altering the ownership of the construction company (Schleifer, 1999). The numerous construction companies that are family owned are even more at risk during the leadership transition as only thirty percent of family companies are able to survive transition from the first generation to the second, and even less family companies survive to the third generation (Beckhard & Dyer, 1983).

The researcher's literature review of the most prominent construction research journals provided little assistance or information on planning for succession within the build environment. Although human resources are critical to the construction industry (Yankov & Kleiner, 2001), research for replacing these key individuals has provided little assistance to the construction industry. The objective of this paper is to study leadership transitions in the construction industry and identify the typical transition timeline and frequency of executive succession. This paper will benefit the construction industry with planning and understanding the timeline of leadership transition.

The Leadership Transition

The career timeline for executives of companies vary from individual to individual, but the ability to remain with a company is always limited and collectively there is a median career timeline for executives. Trow's (1961) study of 108 small manufacturing companies found that the median rate of the average executive life with the company to be on average twenty to twenty five years. Trow also found that on average the founder of the company have more in stake with their company's then their non founding counterparts as the founders would remain with their company for thirty years and the non founding executives would be with a company for fifteen to twenty years. These averages are not a guaranteed timeline for all executives as there are many factors influencing the overall timeline. As many executives will enjoy long and successful careers some will have unfortunate events that decrease their timeline dramatically. Without an ongoing transition plan many companies will experience emergency leadership transitions when unfortunate incidents occurs, which leads to ineffective and reactive planning (Rothwell, 2010).

Succession planning has been found to assist companies during leadership changes, specifically when an emergency leadership change is required (Leibman, et al, 1996). But companies continue to disregard the importance of succession planning today. Multiple studies have demonstrated that on average only forty percent of companies have a prepared a plan for succession in the case of emergency or early departure (Cairns, 2011; Taylor & McGraw, 2004). Taylor and McGraw's (2004) study found that less than half of companies have plans for succession, even though eighty percent of executives believe that succession planning is critical for their company.

Although executives believe succession planning is important, research has shown that the executives themselves are one of the main obstacles of planning for leadership transitions. Multiple reasons have been found to cause the executives to delay planning their departure: fear of retirement, fear of the unknown, fear of losing control, fear of death, lack of interests outside of work, or a strong personal attachment to the company (Ibrahim, et al 2001). Executives' identities are often intertwined with their company, which makes the idea of detaching from their identity difficult and painful. Succession planning must often begin with a push from outside factors for the executive to begin planning, but it is important that senior leadership agrees to planning transition for there to be acceptance and ownership to the succession plan (Sambrook, 2005; Ibrahim et al, 2001). If a company understands the importance of planning succession and understands the inevitable leadership transition, then a company's main objective should be to gain the key leaderships support in developing a plan for their departure.

The Transition Timeline

To understand succession planning companies must understand the processes and the challenges in leadership. Christensen's (1994) study found three elements to successful succession planning: 1. the selection of the candidate by the key figures of the company; 2. a period in which the candidate can be effectively trained by the company and the predecessor; and 3. transferring management and ownership if necessary and accepting the transition by both the successor and the predecessor. In this article these three main periods have been identified as: selecting the candidate, training the candidate, and transitioning ownership and management. A description of the periods and the challenges found during these periods are described.

Selecting the candidate

The first challenge in succession planning comes with analyzing and selecting the correct successor for the company. The needs of the organization should be determined when selecting the candidate to assure that the appropriate replacement is selected (Schleifer, 1999). Companies will need to decide which characteristics are needed to fit with their companies needs. Buckingham and Vosburgh (2001) identified two aspects that should be considered while evaluating potential candidates. First, they recommended that companies look inside their companies first before they look to hire an outsider. A new outside executive will be unfamiliar with the methods that made a company successful and can create risk to the stability of the company. Second, the current and future needs of the company should be considered when selecting the skill sets required with the new individual. The idea that the successor needs to have the same skills sets as the current leader has been found to be false and can potentially be harmful if new skill sets are needed. To find the right successor, Hadelman, et al. (2005) suggested that candidates present their perception of the company's vision, goals, and the individual responsibilities needed for the position. The selection of an unprepared or inappropriate successor can create damaging impacts after leadership transitions, Dalton (2006) estimated that 40 percent of CEO's make errors in their first 18 months of managing.

If no heir apparent is available for a family owned business, selection of a successor will often determine how ownership will transfer to the new successor. This transfer of ownership proves to be difficult for many family owned companies, Kirschner and Ungashick (2005) stated that construction owners struggle with understanding their options for selling their company and how they will receive the estimated value of the company. Selecting the incoming successor and new owner will be critical to assure that the family will benefit from the years of dedication to the company.

Training the candidate

Once a candidate has been selected effective training is still required to assure that the successor will be ready once the transition occurs. Developing a formal plan for the individual to follow can help prepare them for the future challenges. This plan should be created or agreed upon by both the successor and the predecessor (Dyck et al, 2002) and it should be easy for the successor to follow (Fulmer, 2002). There are many activities that can be used to prepare a successor. Bernthal and Wellins (2006) provided a list of development programs that human resource departments have utilized to prepare leaders, they are presented below in the order of use and effectiveness:

1. Formal workshops
2. Special projects within one's own job responsibilities
3. Articles/ books
4. Tests, assessments or other measures of skills
5. Coaching with internal coaches or mentors
6. Special projects outside of one's own responsibilities
7. Computer based learning
8. Coaching with external coaches or mentors
9. Expatriate assignments

Transferring ownership and management

At the time of transition the top management should be on the same terms with how the process will unfold. If there is no senior level support with the transition the succession will be ineffective (Fulmer, 2002). The incumbent's willingness to prepare a succession plan and step down when the time is appointed directly affects the success of the transition (Sharma et al, 2003). As stated earlier there are many obstacles that the predecessor must overcome for them to be prepared to step down, but the idea that the executive of the company must completely disengage at the point of the transition is incorrect. With proper planning, responsibilities can be assigned so both the predecessor and the successor agrees upon responsibilities before and after the transition (Kirschner & Ungashick, 2005). Detailed responsibilities should be provided to the predecessor to clarify their future contributions with the company to minimize any conflicts of management with the successor. A departing predecessor that does not follow this plan is in risk of offending and losing the successor to another company (Sharma et al, 2003).

Research Objective and Methodology

The objective of this research is to study leadership transitions in the construction industry and identify the average timeline found in leadership transitions in construction companies. Simultaneously the research should identify the frequency of leadership transitions in construction companies. Identifying the timeline will assist construction companies prepare for leadership changes in their company. The methodology of the research is outlined below.

Kesner and Sebora's (1994) review of the research in executive succession gave further recommendation to continue research within succession planning and to focus on the specific industries. The authors own literature review found very little research on executive succession in the construction industry. Identifying the gaps between the research and the construction industry through case studies was also recommended by Kesner and Sebora.

The researcher was able to partner with the National Electrical Contractors Association (NECA) to conduct the research on succession planning in construction companies. NECA is the largest electrical contractors association in the United States. The affiliated research foundation ELECTRI International agreed to provide support with the research. With the support of ELECTRI an invitation was sent to 277 members of the association to participate in succession planning research via email. Twelve contractors responded to the email and agreed to participate in the research. The contractors agreed to share their experience, succession timeline, and company information related to their past leadership transition experienced.

Interviews were set up between the researchers and the twelve contractors. The personal interviews followed the recommendations of Qu and Dumay (2011) to capture data and provide case studies. The author prepared the interview questions to follow the timeline of the interviewee's succession experience. Questions were developed to capture the sequential processes that the contractors followed during succession. The interview was conducted in a semi-structured method in which the interviewer fashioned the predetermined questions to assure that necessary data was collected but at the same time the interviewee was relaxed and was able to communicate without restriction. Many of the questions were open-ended questions and were developed to gather detailed information that the interviewee remembered about their specific succession. This format allowed more freedom in the interview for the interviewee to share significant experiences. Specific data points that the researcher needed for the research found in this article were captured with direct questions. A pilot interview helped develop the questions that were used for the remaining interviews. The interviewer walked the executive through the timeline of the company's leadership transition and distinguished the practices that were used to prepare the successor. The personal interviews were scheduled with the respondents either in person or via phone communication. To capture data presented in the interviews, the interviews done in person were video and audio recorded, and the interviews done over the phone were audio recorded. Both types of interviews were recorded with permission of the interviewee.

Research Data

The twelve construction companies that were interviewed provided quantitative data on the companies experience with their past leadership transitions. This article focuses specifically on the quantitative data. Table 1 presents the terms of the executives of the twelve construction companies. The majority of the companies were family owned, the remaining companies were either publically owned, employee owned or owned by non-related owners.

Table 1

Executive transition data found within construction companies

	Age (Yrs)	**Term of Founder (yrs)**	**Term of 2nd Exec (yrs)**	**Term of 3rd Exec (yrs)**	**Term of 4th Exec (yrs)**	**Term of 5th Exec (yrs)**	**Term of 6th Exec (yrs)**	**Term of 7th Exec (yrs)**	**Current Exec Term (yrs)**	**Avg Exec Term**
A	13	11	-	-	-	-	-	-	2	11.0
B	17	16	-	-	-	-	-	-	1	14.0
C	34	32	-	-	-	-	-	-	2	33.0
D	37	26	-	-	-	-	-	-	11	26.0
E	39	26	-	-	-	-	-	-	13	26.0
F	41	33	-	-	-	-	-	-	8	33.0
G	37	24	12	-	-	-	-	-	1	18.0
H	57	27	29	-	-	-	-	-	1	28.0
I	83	34	40	-	-	-	-	-	9	37.0
J	101	57	38	-	-	-	-	-	6	47.5
K	92	20	27	35	-	-	-	-	10	27.3
L	104	40	8	12	8	11	10	7	8	13.7
	AVG	28.8	25.7	23.5	8.0	11.0	10.0	7.0	6.0	26.2

Analyzing the frequency of transition to the age of the company a correlation was made between the company's age to the number of the executives that have directed the company, see Figure 1. A formula representing the correlation was found to be: $y = 0.0377x + 0.9401$ with a $R^2 = 0.5083$.

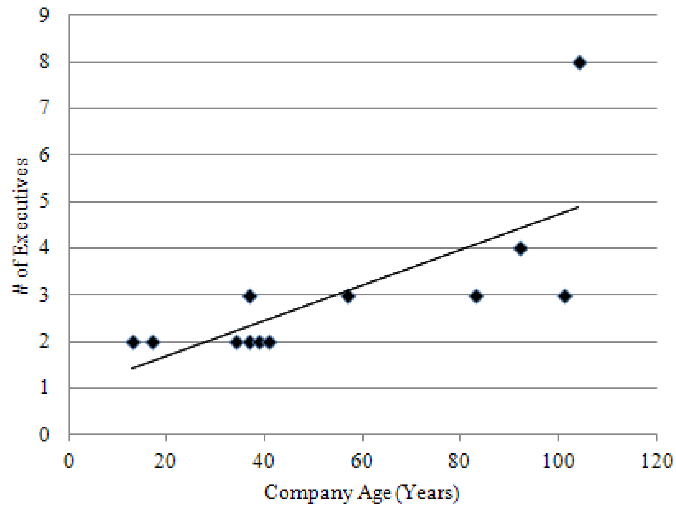

Figure 1: Correlation of Company Age and Number of Executives

The time periods that were needed to transfer leadership and ownership to the new executive of the most frequent leadership change was captured in the interview, see table 2. The interviewee's provided three time periods during the leadership transition: 1. period of time needed to plan the transition from the start to the transition; 2. the period of time needed to train the successor; and 3. the period of time between transition and the predecessor's retirement and disengagement from the company.

Table 2

Executive Transition Timeline

	Beginning of planning to transition (Yrs)	**Appointed successor to transition (Yrs)**	**Transition to predecessor's retirement (Yrs)**
A	8	5	2
B	4	2	2
C	5	5	3
D	8	6	4
E	3	3	2
F	0	0	0
G	6	3	5
H	0	0	0
I	4	3	7
J	3	3	5
K	10	3	10
L	6	4	5
Average	5.0	3.3	4.1

Research Findings

Leadership Transition Frequency

Founders of the construction companies showed their dedication to their companies and on average were with their companies for 28.8 years, very comparable to the Trow's (1961) study that found the median career of a founder to be thirty years. The period of leadership for non founding executives was found to be much less than the principal owners, averaging 19.6 years. These construction executives also correlated with Trow's finding that non founding executives averaged between fifteen and twenty years. Very little correlation was found between the age of the construction company and the number of leadership transition that had occurred within the construction companies. Companies would be better served by expecting leadership transitions every twenty five years depending on the abilities and desires of the current executive of the company.

Leadership Transition Timeline

The data collected in the interview also provided time periods that developed the average leadership transition timeline within construction companies, see Figure 2. The time periods gathered in the research illustrate the necessity of sufficient time to transition leadership. All but two of the companies demonstrated that they planned and prepared for the transition.

The complete timeline period covered a nine year period from beginning of planning to the predecessor leaving the company. Five years on average was needed for the companies to plan the transition and hand the company over to the successor. Two years on average were used to select the candidate. Many of the transitions followed the initial plans of handing the company down to related individuals within the company. However some company's initial plans to hand the company down were frustrated when the incoming generations showed little interest in taking over responsibility of the company which lead them to assessing other options.

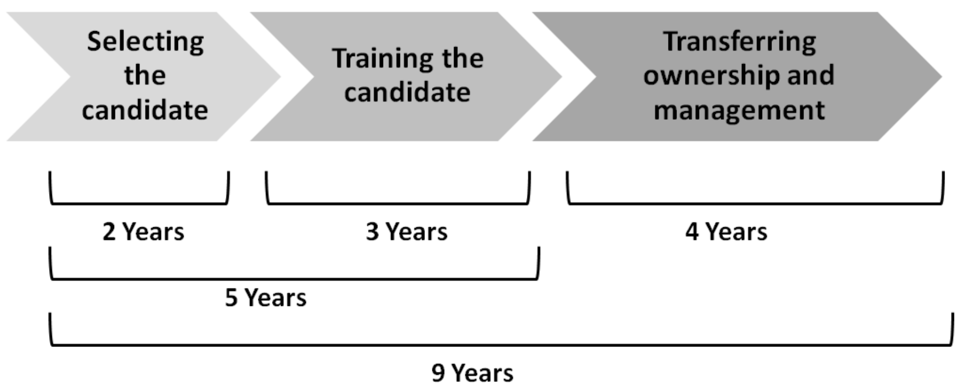

Figure 2: Average leadership transition timeline

Once the transition occurred the predecessor remained with the company for another four years before disengaging from the company. This time was used for mentoring and developing the successor's abilities to manage the company. Predecessors also used this time to handle small responsibilities within the company to relieve the first stressful years of leadership for the successor.

The two companies that were not able to plan or prepare was because of health emergencies with their owner and operator. One of the managers unexpectedly passed away and left the family business to two children that had no interest in managing the company or knew who to select as the successor. And the other owner passed away within six weeks of becoming very ill, he left the company to children that were unable to manage the company effectively. Both cases led to financially hardships and the demise of relationships within the family.

Conclusion

The inevitable transition of leadership creates visible and sometimes undetected impacts to a construction company. This can cause turmoil financially and operationally unless minimized through efforts included with early planning. Research has shown that efforts starting before the leadership transition can minimize the negative impacts that come with succession. Little research on executive succession was found in the construction industry, though the industry highly depends on key individuals to direct their companies. Twelve construction companies that have recently experienced leadership change provided case studies in which the researchers were able to identify the frequency of leadership transitions and develop a leadership transition timeline in which companies can plan to transfer responsibilities to the successor. It was found that the average founding executive of a construction company will be with their company for twenty nine years and the non founding executive will only be with the company for twenty years on average. Overall every construction company should understand that executive leadership changes occur every twenty five years and by using the provided timeline companies should begin planning for the transition at the least five years before the predicted departure of the executive. Planning should leave two years at least to assure that the company selects the correct successor, three years to prepare the new successor, and four years of mentoring after the transition to help the successor adapt to the new responsibilities. The large generation of baby boomers entering the age of retirement has the ability to plan and prepare for their departures from the companies that they manage, the construction industry specifically depends on these key individuals to responsible plan the transition timeline.

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