MIDDLE MARKET Growth

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Is the Stage Set for Your Exit?

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You've built your firm and it's a great success. When it's time to exit, are you hoping the company will outlast your leadership, or do you plan to shut off the lights and lock the door behind you? If your goal is to create a legacy of a multigenerational success, you will want to consider the following time-tested approaches:

Begin now, if you haven't already. It's never too early to start thinking about succession planning, and the earlier the better. As one middle-market private equity firm partner told me, "If you don't put emphasis on it soon enough and stay focused, you increase the risk of a disorderly succession. It is very hard to be successful hiring a senior person from the outside who doesn't understand the firm's philosophy and culture."

Develop a strategy and stick with it. Succession planning is an essential element of strategic planning, but it often gets pushed aside in favor of more immediate demands. In a Deloitte survey, 86 percent of executives cited leadership as their No. 1 talent issue, yet roughly half (51 percent) had little confidence in their ability to maintain clear, consistent succession programs. With long-term goals in place, questions to be answered include: Do the current age demographics align with the objectives? Which skills and competencies must future leaders master? Who are the most likely contenders? Be sure to revisit and recalibrate annually.

Hire wisely. Hiring is expensive and hiring the wrong staff even more so. The right person may not be the one who aced the case study, nailed the financial model and "feels like a good fit." Firms are increasingly using personality assessments as part of the hiring process to help determine if a candidate's personality, attitudes and behaviors would indeed be a great long-term fit.

Create a culture of communication. Establishing and maintaining open lines of internal communication can be challenging, given the frenetic pace of a firm's activity and the endless barrage of communication from email, voicemail and media. However, it is worth the effort. In its 2015 "State of the American Manager" report, Gallup found that managers who consistently use a combination of face-to-face, phone and electronic communication are the most successful at engaging employees. On the flip side, a breakdown in communication can lead employees to mentally "check out" and then leave at the first opportunity. In a recent conversation, the head of HR at one New York-based private equity firm stressed the importance of always keeping an "ear to the ground" and maintaining open leadership/employee communication lines to stay one step ahead of any problems and remain agile when issues come up. "It's easy to ignore that first departure and chalk it up to a fluke, but it's probably not," she said.

Invest in your bench. According to "The Deloitte Millennial Survey 2016," two out of three millennials hope to have moved on from their current employers by 2020. One of their hottest buttons relates to development—63 percent said their "leadership skills are not being fully developed" at their current companies. True or not, perception is reality. The potential for high levels of attrition is daunting and, if realized, would devastate any succession plan. Get millennials involved in their own development by working with them to create their development plans and giving them the training, feedback, coaching and experiences needed to help them realize their potential.

Promote the "athletes." It might be easy to advance the deal professional who closes the most profitable or greatest number of deals, but that person may not have the leadership skills to be your successor. Gallup research has found that only three in 10 people possess coachable managerial talent, and organizations fail to pick the right candidates as managers a staggering 82 percent of the time. Promote those who are skilled in the business and productive, but also good managers with strong leadership traits. Those who do not meet all criteria should be considered as candidates for being "managed out" over time.

Spread the wealth. An SAP/Oxford Economics study confirmed that high performers care first and foremost about competitive compensation and other financial rewards. Those in your leadership pipeline will stay for the long haul if they get what they need and want. Doling out equity ownership won't guarantee employee commitment, so allocating carry is not a retention panacea, but it's critical nonetheless. As the middle-market private equity partner I spoke with put it, "The guy at the top often looks at all the income and says 'Why would I give that up?' The answer is that the younger guys will either kick you out or leave. In a successful transition the leader ends up with a small piece of a bigger pie. In a failed one, he holds onto a high percentage of the economics but really ends up with much less."

Setting the stage for your exit need not be an overwhelming process. Just remember the Boy Scout motto: Be prepared. //

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