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Founder's Transition: The Time Is Now

By Dr. Perry Daneshgari

Companies start with people, function through people, thrive through their culture, and survive through their adaptation to the *zeitgeist* — the defining spirit or mood of a particular period of history as shown by the ideas and beliefs of the time. The pain of separation and the anxiety experienced during the loss of a leader is very much like the five stages of grief; however, the organization and its departing founder can plan to avoid that pain and anxiety.



THE EVOLUTION OF AN ORGANIZATION

While some organizations grow through acquisitions and going public, construction companies most often grow organically and are led by the initial founders.

These founders are the organization's holding pin, and if they are removed prematurely, it can cause unwanted consequences due to operational disruptions. However, if the founders insist on staying in their roles longer than what benefits the company, then their operation philosophy and dissolution of the company can happen through disengagement of the markets and customers due to the organization's lack of adaptability.

External market influences that can impact an organization's evolution include:

- Technology changes
- Market shifts
- Product or service production changes
- Labor and social law changes
- Ecosystem shifts or changes
- Global unrest, pandemics, natural disasters, or conflicts causing economic change

Most of these external influence shifts do not happen suddenly and are not as visible at their onset. Production process changes, for instance, can take years to infiltrate the markets and influence the company's operation. For example, in the automotive industry, it took over 30 years for the Toyota Production System (TPS) to be recognized, and it took another 20 years for it to become the dominant production process.

STAGES OF COMPANY GROWTH

At the beginning of a construction company's startup, the processes, decisions, job bidding, daily progress, and technologies (Exhibit 1) are often decided at a kitchen table or around the coffee pot every morning.

The CEO or president is the leader and owner of the company's processes. As the company grows, these processes become more hidden and need to be redesigned, which includes technology adaptation. Process designs and changes must consider the six elements of market influence mentioned previously.

As the company grows, its changing process needs are often not recognized beyond what the owner can keep in their head. Like any soft change in an organization, making process changes must be approached methodically and systematically with categorization and review of impact and risk of change. It is important to approach changes in the business systematically or risk adding a checklist, which may solve the current issues and be very localized in its outcome. It may prevent past mistakes from reoccurring but may not forecast future issues.

Exhibit 2 shows an organization's evolution of what happens throughout four levels of business growth and change. The goal is to transfer information from the base to the top to be digitalized and ingrained in the company fabric as artificial intelligence (AI).

Level 1: People

The business is run by the information stored in people's heads — their methods, thoughts, and judgments. The culture was likely created by the founder and other owners and leaders.



*Two roads diverged in
a yellow wood,
And sorry I could not travel both
And be one traveler, long I stood
And looked down one as
far as I could
To where it bent in the
undergrowth*

*Excerpt from The Road Not Taken
by Robert Frost, Mountain Interval
(1916)*

Level 2: Process

Practice becomes habit. There is company tacit knowledge that the team knows and understands through time and access to the founder and leadership team. This is simply "the way things are done."

It may be difficult to find these processes written down explicitly, and it's likely that only the team that's in-the-know can figure out what do to. This is difficult to scale; these processes are likely not optimized as the company grows, yet they are ingrained and repeated.

Level 3: Procedure

Tacit information is translated to explicit information. Templates, forms, and checklists are made for others to follow, which helps with scaling. The quality of the process improves thanks to written instructions. The company infrastructure as well as the founder's intent/thoughts start to become ingrained and documented.

Level 4: AI

This is where the founder's methods are captured, as the organization will have created its own AI. This intelligence can be created or compared to existing IT solutions that match those procedures. The IT solution's role is to automate and embed the AI, which is still rooted in the founder, into the company-wide information flow (e.g., timesheet tracking, accounting/enterprise resource planning, expense reporting).

Remembering that AI is intended to embed processes and procedures that are created by the people and company will help prevent purchasing a "tool" that may not match the company's intent. AI maximizes the benefits of the company's tacit knowledge.

To get to the AI level of any organization, the other three steps must be understood and built upon. It's virtually impossible to replicate or duplicate the founder's way of operation, vision, and drive, but one good way of creating a

continuation of the founder's vision and *modus operandi* is transferring them into AI via management with data, interpretation, and analysis.

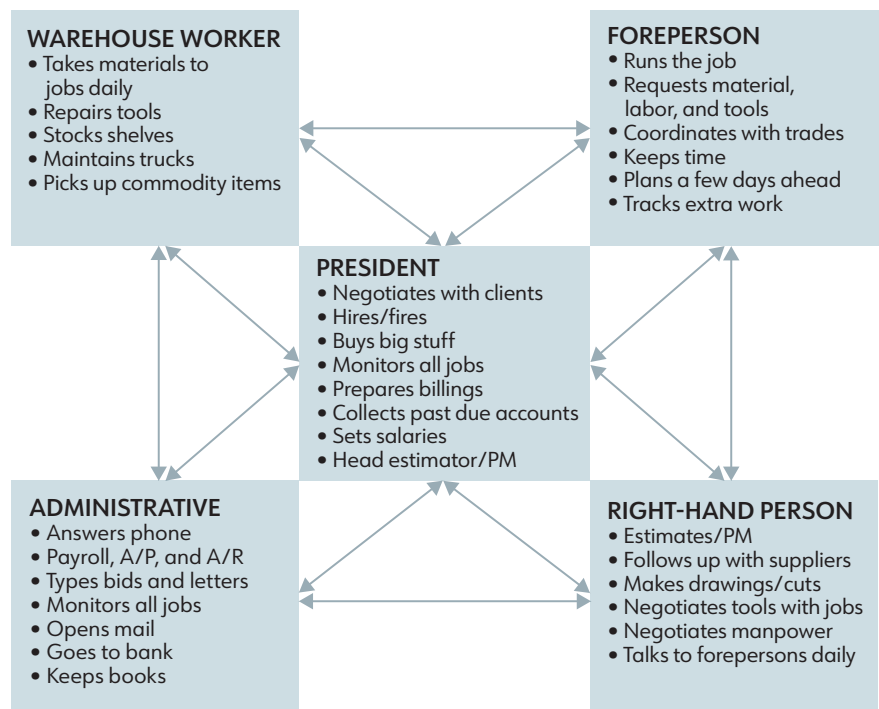
GETTING STUCK IN A FOUNDER'S CULT

"That's not how we do things here." "This has been working just fine for us." "Since the founders started this business, we are loyal to their ways." "Don't rock the boat."

How often do we hear these excuses to avoid accepting the inevitable change upon the organization? How often are we told that if we don't follow these rules, the company will fail? The failed company's graveyard is full of those that followed their founder's cult warnings or ignored the zeitgeist.

One example of a founder's cult is currently and actively disrupting the material distribution sector of construction. Today, almost every vendor requires some sort of enterprise resource planning (ERP)

Exhibit 1: Example of Construction Company at Startup



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system to do the basics of material distribution (buy, store, and sell material).

The next generation of distribution requires processes such as project management, vendor-managed inventory (VMI), and Integrated Material Logistics Solution®.^{1,2} IT solutions require AI that matches how people are solving these needs today.

Staying “stuck” in AI that matches the decades-old process of distribution is preventing the industry from evolving and may be keeping leaders within distribution businesses from flourishing by matching to a new zeitgeist.

Another example is how some companies operate with a “sell at any cost” model – not looking at themselves as a solution provider – so they still have the same old philosophy. History is full of examples, such as perfecting carburetors vs. changing to fuel injectors and vacuum tubes vs. transistors. “It’s the way it’s always been done” and “not invented

here” are examples of group thinking or group belief, which refers to continuing with traditional business operations and how the founder has operated.

DANGERS OF AVOIDING THE ZEITGEIST

The zeitgeist should be considered when moving your business forward. Often, the zeitgeist is confused with an intangible understanding of the social changes. But in reality, at any given time, the zeitgeist is very visible through what popular items the teenagers use, what Wall Street rewards financially, what technology is emerging and being used, what scientists and science are predicting, and many other signals. While societal zeitgeist may not feel relevant to your business, it’s critical that it’s not ignored.

THE WAY OUT

Planning the founder’s transition cannot and should not be delayed until the last year of the founder’s exit. An article in the May/June 2021 issue of *CFMA*

*Building Profits*³ explained how to start and conduct a search for the company’s executive ranks. Your executive search should follow these steps:

- Implementing the strategic plan
- Assessing the internal environment – what does “success”ion look like
- Evaluating the fit
- Executing the succession plan
- Course correcting as needed

It is critical to bring the successor in while the founder is around. Bringing another CEO or president into the fold requires a successful transition with the founder passing the baton, which includes their cult. Pushing the founder out without this transition will most likely backfire. Consider when Steve Jobs was pushed out of Apple without a proper plan or transition of “his cult”; his cult disappeared, and Apple suffered until he came back and reinstated his way of operating the company.

Exhibit 2: Evolution of an Organization

LEVEL 4: AI

Increase efficiency with automation and tools

LEVEL 3: PROCEDURE

Create supporting explicit structures to expand volume and improve quality/consistency

LEVEL 2: PROCESS

Build philosophy of operation into infrastructure of company and “how work gets done”

LEVEL 1: PEOPLE

Initial strength and philosophy of operation

SURVIVAL OF THE UNFITS

External shifts in the industry, technology, and market will impact an organization in addition to internal changes with its transition. In both the external and internal evolutions, fitness of today's environment may be a weakness of tomorrow's requirements. Today's fittest may not survive the future environment, and today's unfits may be tomorrow's survivors. It's not the "fittest" that survive; it's the ones who are able to adopt and adapt.

To survive the changes coming at the industry, you must:

1. Recognize them
2. Accept them
3. Adjust for them
4. Integrate them into business operation models
5. Plan for continuous improvement

In order to achieve the previously mentioned structured approach, the organization must go through the necessary changes and create the process with an operational model that is capable of coping with the new environment during and after the founder's transition.

Getting there requires constant questioning of the status quo — being "unfit" for the current state. Thinking, planning, and behaving this way will help the founder move forward.

The challenge of transition is in questioning your own means of success and realizing that adaptability and creating a new status quo is required. Succession is when the organization itself learns (from the founder) how to constantly question its strength while using its weakness to become fit in the new environment. Just like riding a bicycle, stability comes through movement — not through slow-down or stagnation.

CONCLUSION

Given the amount of tacit knowledge that sits with a company founder, the succession process must start early to translate as much information into AI as possible. This will help ensure that the current business has a chance of survival until the next generation can stand on its own enough to weather the market influences.

Every successful company will eventually require a replacement, succession, or enhancement to its founder. A company's current and future executive, managerial, and operational HR structure must be part of its founder's transition plans for growth, stability, and sustainability. **BP**



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MCA, Inc. focuses on

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Endnotes

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DON'T MISS

Turn a few pages ahead for more on Using AI to Transition a Company's Founder.

Using AI to Transition a Company’s Founder

Developing AI to transition a founder is a *very challenging* key to succession. There are many dimensions to account for, as a founder represents all three government branches simultaneously within their business.

They are also involved in all four spheres of influence (Exhibit 3), acting as the legislative, judicial, and executive authorities. Furthermore, founders and CEOs must function effectively despite constant competing demands.

Exhibit 4 shows how this looks and feels for the founder, where input comes at them from professional, personal, and family/social environments. Since the founder as a person is not separate from their business, balancing the demands is an ever-present task.

The processing requires:

- Consideration of what to do and what is being asked of them (work)
- How much time to spend on it (effort)
- When to do it (time)

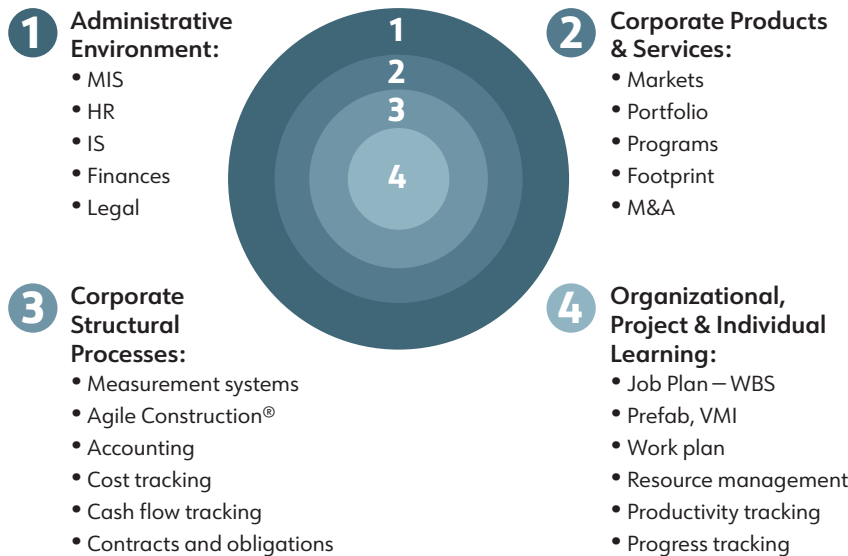
How those decisions are made is the experience that only a founder and/or CEO gains in their tenure. Should their behaviors and decisions be replicated and translated to AI? Were they successful?

To answer this, MCA, Inc. has developed a CEO Litmus Test through its CEO Forum (Exhibit 5).

The test was developed by interviewing founders and CEOs who have gone through or are going through a transition in their business.

Exhibit 3: Influence Boundaries of Corporate Governance & Operations

1-4 = lowest to highest influence



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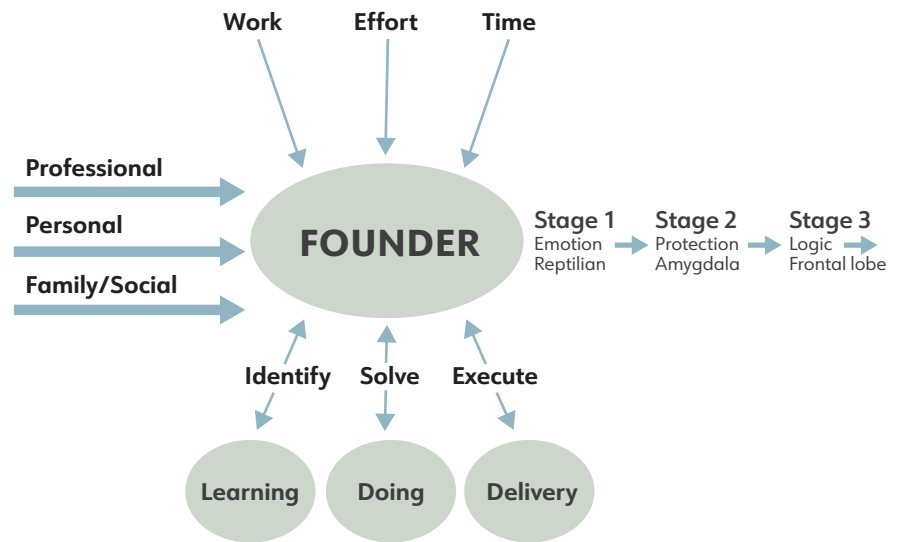
The CEO Litmus Test aligns a potential future leader along a spectrum between manager and leader in four categories:

- Community
- Planning
- Business
- Personal

Ultimately, the characteristics of a CEO are difficult to embody and find in the time that the business needs to transition.

Therefore, the transition plan for a founder should start as soon as possible. Be sure to look for someone who can handle the competing demands, operate in all the spheres of influence, and fulfill the role of a successful CEO.

Exhibit 4: Competing Demands



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Exhibit 5: CEO Research Litmus Test

	MANAGER (Doer, CEO as Position, Stabilizer)	LEADER (Dreamer/Creator, CEO as Pioneer/Founder, Starter/Grower)
	Exclusive	Inclusive
COMMUNITY	My primary community is directly linked to, or even within, the business/company. Community helps bring business to our company.	I spend most of my time outside of the business in communities/groups where I always seem to end up in charge. Our company has helped build communities.
	Business-Driven	Personal Flow & Focus
PLANNING	Planning involves determining how to best utilize resources to achieve goals. Plans are made with historical data and evidence. My planning horizon is 1-3 years out.	Planning involves the current resources to set new goals. Plans are made with gut feel and eye on horizon. My planning horizon goes out 10+ years.
	Stay Healthy	Assure Future Stability
BUSINESS	The primary focus is making sure the current business stays healthy. I try to pass on my experience to others to help them and the business succeed.	The primary focus is on the next generation of the business. I try to find people who can do what I can't do.
	Segregate Focuses for Personal Success	It's All Me
PERSONAL	Balancing and segregating my time between business and personal has been key to my success. I'm put in the position to lead but have not personally invested in the business.	There is no balance between the company, community, and my personal life; I'm in all three all the time. I have put my personal money/wealth into the company.

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