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Succession Planning:

The pursuit of successful generational leadership transition

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One of the most challenging questions that any privately held, family-owned business can face is succession planning, which is the process of figuring out how to develop leaders and pass along leadership and ownership of a business from its founders, or its current generation of leaders, to the company's next generation of managers, leaders and owners. In September, the owners and leaders of several Triad-area businesses met to discuss issues surrounding succession planning and leadership development, along with representatives of the Triad Business Journal and a team of business planning and succession advisors with Comerica Bank.

MARK GENDLE: This is an exciting conversation because we have seen success stories such as Siemens and John Deere and Toyota expanding in the Triad. But they are expanding — they are not based here. You all are based in the Triad, and you all are growing. You all are either entrepreneurs yourselves or products of family-based entrepreneurs, who are trying to grow and carry on that legacy. That is what we want to dig into tonight: How we are going to carry on the legacy of not only the organizations that we all support and run, but the organizations that support and run the Triad?

We have some folks here that have inherited (businesses), some folks that are starting off with their own companies, and some folks that may have been picked as the next generation of leadership (for companies). So, whether it is family leadership or just leadership within your own organizations right now, how do you as CEOs, business owners and presidents of organizations, cultivate that growth mentality of saying 'hey, you might be a welder right now, but you are capable of X, Y and Z. How do we grow those individuals beyond just being a future leader in the organization? Are those individuals owners? Or prospective owners?

ZACH BURICK: I don't think any of us can be leaders of an organization or company if we are not leading ourselves as well. I have to work on myself everyday - things like reading books and doing things that maybe used to be uncomfortable for me. I still put myself in uncomfortable situations intentionally.

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ZACH BURICK
President and Owner,
D.S. Duggins Welding

done, or you're not doing.

Establishing and living core values is super important to me. I mean not just words on a wall, but truly living out those core values that you have built.

BOB BUCHANAN: Developing leaders and developing owners are completely different questions. An owner has to be a leader, but a leader isn't necessarily an owner.

Ownership and leadership are tied together, but they are vastly different. So, you want a process to identify and cultivate leaders differently than you would identify and cultivate potential owners — even if it is your children or someone in your family. Not everyone in your family is a potential owner.

I am a process-oriented person. I believe strongly that if you run the right process, most of the time you get the right result. But that

process has to be very specific to who you are and what you want to accomplish, and what your people can accomplish, and what your family needs are.

LOU BALDWIN: The way I did what you are asking was by turning things a little bit upside down. Some of the folks (in companies that Baldwin has acquired) had worked at family businesses before, and it was all about the owners of the business. I turned that upside down and said, 'my job is to make their career successful.' So I said, 'I am working for their success,' and they really took to it. It became a recruitment tool. Some people who had their own businesses said, 'I will let Lou work to help me grow my business,' so they sold me their business but came to work with me. I did kind of a traditional roll-up, where I was acquiring competitors and they benefited because I was going to be providing the accounting department and they did not have to stay up at night doing the books, and marketing and benefits where I could help grow their business instead of them having to do everything and have some economics of scale and territories.

I think that is part of it. Make it a great place for them to work by making it about them and supporting their career. I will be successful if they are successful. Whether they had equity or not did not become an issue because I gave them entrepreneurial opportunities.

TROY MILLIKAN: Leadership is always an interesting topic. In a lot of family businesses, there is no process for that.

Finding leaders is about finding people who seize opportunities and capitalize on opportunities. In

THE PARTICIPANTS

LOU BALDWIN

Owner and President since 1989 of The Baldwin Cos, a real estate investment and management company in Winston-Salem started by his grandfather in 1928.

ROBERT H. “BOB” BUCHANAN

Senior Vice President and National Practice Leader for Private Wealth Management for Comerica Bank

ZACH BURICK

President and Owner of D.S. Duggins Welding, a steel erection company based in Winston-Salem. Burick worked for the company as a general laborer and several management jobs for a decade before acquiring the business in 2021.

MARK GENDLE

Market President and Publisher, Triad Business Journal

BRENT GORE

Director of Southeast Commercial Banking, Comerica Bank

MELISSA J. LINN

Senior Vice President and Senior Wealth Planning Strategist for Comerica Bank

JACK MAIER

Head of Investment Banking at Comerica Securities Inc., a division of Comerica Bank.

TROY MILLIKAN

Division Vice President of Superior Mechanical Inc., a family-owned HVAC company based in Randleman.

CLIFFORD THOMPSON

President of Thompson Traders, a Greensboro-based family-owned manufacturer of handmade copper and ceramic kitchen and bath sinks with products sold at Lowe's and Home Depot stores and high-end boutique stores.

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my example, I was not shown how the business ran or operated. I would teach myself and seek out opportunities for myself.

Looking for people who could come into leadership is seeing those people who go above and beyond, who take opportunities that are given and then exceed that.

That is where I look for leaders in the future. How do you develop them? That is something I am working on creating. One thing I have seen is that people want opportunities. There are courses you can outsource, but as we grow, I am working on how we bring it internally. Developing courses internally is the key to developing long-term leaders.

GENDLE: Would you say that is a generational shift in Superior Mechanical now from when your dad started?

MILLIKAN: I think it is a generational thing, not just in the business but the whole industry. Gone are the days when people are just placed in things and they just go figure it out. It is more about developing people and giving them opportunities.

MELISSA LINN: I think we have hit on a common theme of putting people into places where maybe they are uncomfortable and wouldn't go on their own. One of the steps that was really helpful for me was my manager hired a consultant to figure out what it is that motivates each of her reports. Money motivates some people, opportunities motivate some people, challenges motivate some people. What is it that motivates your employees? And for every one of your employees, that may be different. Not only did she (my manager) do that, but she acted on what she discovered about me. That makes you (as an employee) feel like your managers are invested in you. Uncomfortable opportunities are given, and people are more likely to take them and rise to the occasion because they feel like someone has invested in them.

That is really one of the hardest things for businesses today, finding good employees who retain your values. Retaining those employees is far less expensive than finding new employees.



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CLIFFORD THOMPSON

President, Thompson Traders

CLIFFORD THOMPSON: We have created a series of rules for the next generation. We (the first generation of owners and managers) all started the business together. We all struggled to build the business and made no money for many years. The next generation are seeing the fruits of that labor. We want to ensure that we are not creating a generation of kids that don't know how to work hard and that aren't hungry or don't have fire in them about it.

We have created a series of rules that none of the nieces and nephews can go into the business straight out of school. They can all work there in high school or college if they want to, but they can't start a career there. We put in a timeline that they had to work a minimum of five years somewhere else before they can join the business, and they can join the business if they have the skill set that is needed in the business and there is an opportunity at that point. We want to make sure we don't create a kind of nepotistic

organization that all of a sudden becomes like they are part of ownership.

We have talked about how in the future we will share with employees. ESOPs aren't great, I think, but we are thinking of ways. We do have a kind of ownership plan.

Attracting talent is harder for family businesses. When you find good team members, you definitely want to hang onto them. For me, if I were going to work for a family business, I might say, 'there is a ceiling here, so maybe it is going to be hard for me to rise above a certain level or be the CEO here someday.' I think you have to find ways to create incentives where you can motivate and encourage the talented folks to join and stay with your company.

GENDLE: Zach, I think you are a little bit different — in the sense that you purchased an organization that you worked in. We know so much of the DNA of businesses lands with the leaders. Success falls with the

leaders. How have you been able to overcome that?

BURICK: I feel like I had a bit of an advantage, because a lot of the team that I worked with in the field back in 2013 through 2016 are still with us when I progressed into the office. In the construction industry, turnover is huge. We have far less than the industry average, which I am grateful for. I feel like I earned the respect of our team members whenever I was out in the field. I didn't know anything; I just knew I wanted to be good at it. I asked questions, and I shadowed the guys that had been doing it forever and just learned the ropes, so then I earned their respect. Once I transitioned to the office, they were depending on me to settle jobs so they had jobs to go to. So from progressing to estimating, to management to day-to-day operations, and doing all of that, I continued to earn their respect and build that rapport.

That transition from field to office to owner was somewhat gradual. Going back to core values, building core relationships is so important. Building relationships with the team, I earned their respect. I was also able to build a culture. I was an entrepreneur before I was an entrepreneur. They granted me the leeway to kind of run the business as if it were mine already, playing on house money. It was easier for me with the transition because I was already in the business.

GENDLE: When we look at succession planning, a lot of our business partners are family or friends or acquaintances. We all have different agendas. It may be an age thing — 'Maybe I have got five more years to work, maybe I am ready to retire, maybe I am about to make my last soiree out to an encore career- who knows what that might be?' How do you manage that?

BALDWIN: So how do you manage the thought of succession that will occur someday?

I raised my two sons to follow their passions and dreams, and what they are good at, and what they wanted to do. And I put zero pressure on them to ever join this business, and I felt like my dad did the same thing with me. I considered a lot of

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options right out of college, and he gave me the absolute worst offer I had out of five or six companies that gave offers. I think it was just a shot at owning this, somehow.

I just believe in that. I don't want kids to feel like there is a pressure to join the company. I think they need to find their own path in life. I will never approach them saying they need to do this. I will provide the opportunity to join the company if they want to.

I have developed about eight options (for succession), and I did it largely in conjunction with my Vistage group (a group of peer business advisors). I have a great group, who are CEOs of their own companies in 10 different fields.

Sometimes, you have to get by some of the emotions of it. I'm constantly mulling it over and reading about succession, reading about options and thinking about it and going to some evaluation seminars, for what I might be doing to be in the best position to sell and or keep it.

BUCHANAN: Sometimes, it is good to take a step back and think about why we have these discussions. We have these conversations because we are not owners of publicly traded companies. There is not a board of directors that sits off somewhere that you never see. There are not 10 million shareholders that you never talk to.

The people who are your partners are your family and friends. You probably spend more time at your company than you do at home, so your employees feel like family. The company itself feels like family. I sit down with business owners all the time whose children are jealous of the business because it gets more attention at the dinner table than they do. It is like a sibling who never gets in trouble. So, there are these dynamics going on that make it difficult to get through this conversation and through succession and transition. You have options, and you have to weigh those options financially and non-financially. When business owners are thinking about transition, they need to be really thoughtful about identifying what it is they are trying to achieve. What is important may be different for each owner, and



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Senior Vice President and Senior Wealth Planning Strategist, Comerica Bank

may include wanting to take care of employees, reduce risk and diversify, enough money to live on, family harmony, leaving a legacy in the community, or a variety of other objectives. What are your options? Sell to a strategic buyer, sell to a financial buyer — and not everyone has all of these options. Maybe an ESOP or a management buyout are good choices. Then you think about how each one of those things meets each one of those objectives. You rate them. It is finding the best fit through all the opportunities, as long as that covers all your minimum requirements that makes a transition successful. That's really hard to do. Most people don't know what their minimum requirements are, and they have not really sat down and identified and prioritized their objectives.

That is really what this is all about. What is important to you individually and how do you accomplish that? What's the best balance between economic and emotional factors.

LINN: There are a lot of business owners who come to us and say, 'I have built this business and it is lovely, and it is my baby, and I think it is worth \$50 million.' It may be, or it may not be. The question is, in order for you to achieve what is next and what is going to make you happy, do you really need \$50 million?

Most people don't know the answer to that, so doing some of the analytics behind 'what do I need to get where I want versus what it is worth,' helps shape some of that decision, because if you can sell it for \$25 million and be happy today, why not be happy? Part of it is about 'what is the next thing that brings you joy?' It is one of the first questions I ask clients. For some people, that is grandkids or traveling, or playing golf five days a week. It is different for every person. For some people, it is about continuing to own this business or working in this business. Making sure you know where it is that you find joy, is part of the key to the answer.

BUCHANAN: It is a trade-off. There is a balance between emotional and economic (decisions). For every emotional decision, there is an economic cost. And for every purely economic decision, there is some emotional cost. You have to figure out the calculus: What am I willing to pay to make the decision to make me happy?

One of the hardest parts of a family business, all participants agreed, is being able to separate family concerns from business leadership and ownership and making decisions that do the right thing for both.

BRENT GORE: I think this goes back to beginning questions about leadership and ownership.

I have seen other people (company owners) say, (to family) you can't come to work here until you have been somewhere else for five years. What you are really doing is, you are teaching them the difference between an employee and a shareholder.

It is easy to get that sense of entitlement, when really you might not deserve it. You may be a beneficiary or may not be a beneficiary. Go learn what it is like to earn your way. Go learn what certain things you do are worth in the rest of the world. It is a good way to teach the difference between being an employee and a shareholder.

GENDLE: Thank you all. I think this conversation has been very helpful.”