

Take the driver's seat in founder-CEO succession.

Often a headache for investors, succession planning in founder-led businesses can impede value creation if not managed effectively. With our rich experience in this space as the foundation, we interviewed 20+ private equity (PE) investment professionals and CEOs, all with direct experience with founder-led companies, to delve deeper into the topic. **The business case for our research is twofold:**

RICH WITH UPSIDE, SUCCESSION PLANNING CAN ALSO BE TENUOUS, TIME INTENSIVE, AND DOWNRIGHT TERRIFYING.

"It didn't make sense for the founders to have ownership when they are not active in growing the business. **They are finally completely removed from the ownership. That took 15 years...** It was a process a decade in the making."

"Fear of the unknown [keeps us from pushing for a founder's exit]. And that is exacerbated by the dominant personality of the founder. **The fear is way more significant than the reality, IF you handle it right.**"

"You have to [evaluate] **what that founder means to the heart and soul of the organization.** What are the broader ramifications of how the founder affects the organization. **Are they critical? Is [keeping the founder long-term] a net plus, a neutral, or is it really a loss?"**

INVESTORS WEAR MANY HATS WHEN IT COMES TO MANAGING SUCCESSION. FLEXIBILITY IS CRITICAL.

"You [the investor] need to embrace and enjoy difficult conversations... **Be honest about what the transition is going to look like...** Take advantage of the notion that you are trying to preserve the legacy [of that founder]. **Leaning on their integrity and ego helps.**"

"Sometimes you coax and cajole to get them to the edge, and then they still don't want to do it. In those cases, **you have to be prepared to push them over the edge.**"

"It comes down to: 1) you have to spend time with them and 2) you have to show respect. **If you are going to drink the water, you better appreciate the man who dug the well.**"

On the following pages, we offer PE best practices for guiding founders through succession and highlight common pitfalls to avoid.

Lay the groundwork before building the road. Bring up succession often and speak transparently.

Investors need to calmly, dispassionately, and repeatedly make the case that a capable bench enhances valuation and performance. Knowing when the founder is critical to culture and when culture is a driving value proposition is key to assessing the founder's essentiality. Seize natural inflection points to start the conversation: pre- and post-LOI, during the first 100 days, and when hiring new talent.

BUILD INFRASTRUCTURE WITHOUT PRESSURE TO USE IT IMMEDIATELY.

"We've had great success communicating honestly with each other [around a plan]. There is not a particular date; it's just – when the timing is right, that is the timing... You can't put a clock on it."

ESTABLISH A CADENCE FOR CHECKING-IN AROUND PROGRESS TOWARDS THE GOAL.

"The big issue I have seen personally: a founder verbalizing that he wants a [succession] plan but, when it comes time to put it into effect, he has a hard time letting go operationally and financially."

ESTABLISH YOURSELF AS A MENTOR WITH SIGNIFICANT, RELEVANT EXPERIENCE TO HELP THEM WALK THROUGH THE PROCESS. CONVEY AN ATTITUDE OF DETACHED (BUT SUPPORTIVE) CURIOSITY, RATHER THAN BECOMING EMOTIONALLY ATTACHED TO A CERTAIN OUTCOME.

"Another common dynamic we hear is, 'I want to retire at 60,' but they end up working until 70. It might be ego; they love what they do...feel part of the company...it is part of their identity, and the thought of walking away leaves a void."

Watch for hazards along the road.

Succession is a process, not a person: The question is not "who will succeed you?" but "what kind of legacy do you want to leave, and how can we get there together?"

Don't underestimate the power of simple reflective statements and other "empathy 101" techniques.

Don't avoid the topic.

Addressing succession candidly and respectfully only enhances your ability to assess value and risk. You are investing in the company's future and have significant skin in the game. Eventually it will come to a head; be intentional about it.

Take a funnel approach (i.e., start with strategy and drill down).

If the process draws out, revisit the big picture to recalibrate.

Understand founder's sources of motivation and resistance.

Ask good questions and listen carefully to the answers.

EXAMPLES OF PROBING QUESTIONS:

- "What's got you thinking about this? Why is it important right now?"
- "Who have you talked with about this (internally and externally)? How have those conversations gone?"
- "Help me understand the big picture. As you look to the future, what is next for you?"
- "What's the five-year business goal? What role will you play in driving it and who else might play a big part?"

TYPICAL SOURCES OF MOTIVATION:

- Mortality event (e.g., themselves or a family member);
- Promise to a spouse or partner;
- Long-standing goal for personal wealth;
- Desire to give back or fund a legacy.

TYPICAL SOURCES OF RESISTANCE:

- Inability to relinquish equity or control;
- Fear of losing influence, prestige, meaning, identity, or productivity;
- Absence of strong relationships or interests outside of the business.

Case in Point:

Peel back a layer to decipher second thoughts.

Twenty years in, she had built a retail empire with two blockbuster brands and \$3B in annual revenue. The opportunity to cash out was appealing, but seismic industry shifts shortly after the transaction led to cold feet. No one knew the organization better, but fresh thinking was needed to pivot in the new business landscape. After numerous fits and starts, Ampersand was engaged to address the founder's reservations: she was scared to take the leap into retirement. Focused coaching and introductions to outside boards eased her fear of losing influence and enabled her to envision what she could accomplish with her next chapter. Two years later, she completed a successful handoff to an internal leader. Today the brands dominate their space and have evolved effectively under the new executive.

Watch for hazards along the road.

Don't talk at the expense of listening.

Ask thoughtful questions early in the process.

Don't assume you are on the same page.

Pause frequently to pressure-test the ideas put forward.

Listen to what is said AND what is not said.

Stay attuned to body language and behavior.

Don't expect linear progression. This is a non-linear process with multiple starts and stops – there may be five or six conversations (or more) instead of one.

Don't underestimate the existential components of this process. If you fail to understand the legacy the founder wants to leave, expect a lot more starts and stops.

Know there are others whispering in their ear. Surface roadblocks with curiosity and questions.

Don't delay unnecessarily. If the decision has been made and the founder won't budge, act sooner rather than later to force a change.

Help the founder envision a **post-succession future** for themselves and their company.

Position yourself as a strategic advisor involved at different points along the way.

ENVISIONING THEIR OWN FUTURE:

Share stories of others (founders, partners, or corporate executives) who have transitioned well into a “second act.”

- Connect them directly to people who can offer post-transaction opportunities (e.g., board positions, consulting, peer groups, speaking engagements).
- Provide some sense of control during these discussions. A low-key, even-handed approach is likely to receive the best reception.
- Remember, not everyone has robust family relationships and hobbies on which to focus. Give appropriate weight to the emotional aspects of this transition.

ENVISIONING THEIR BUSINESS' FUTURE:

Encourage them to begin discussions with the management team.

- Stay focused on the future; anchor the conversation in the long-term strategy.
- Embolden them to take charge of the process by scripting their own ending with intentionality.
- Call it a “contingency plan” if they’re not ready for succession.
- Emphasize the value of a thoughtful plan to customers, vendors, lenders, and employees; underscore the unnecessary risk with no plan in place.
- At the appropriate time, ask about high potential candidates (their perceived strengths and gaps, etc.).

Key Takeaways:

- Bring up succession often, lay the groundwork early, and establish a trusting relationship with open communication.
- Leverage your diligence skills to ask the right questions; really listen to what is said and what is left unspoken. Guide the conversation and opportunities for action will surface.
- Establish yourself as a trusted advisor. Use your experience to advance the process and help founders envision what's next. Lean on an objective third party if the situation is overly complex or if the deal team is not able to invest the time required.