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NEWS & INSIGHTS

News - October, 2022

Succession: The Dangers of an Uncertain Legacy

History bears witness to the destructive potential of unplanned succession, but Private Equity and VC funds aren't planning for it, especially in Europe. Diana Meyel, Managing Partner at Cipio Partners, considers the dangers and strategies surrounding a strangely unexamined issue.

Introduction

Of the funds which have seen success, grown, and survived from their foundation in the 1990s until now, many now face the problem of succession. Ageing partners have reached their sell-by date and must take leave of the firms they have built. In their place must be left management which they can trust to guard their legacy. Three decades of success in the industry can secure a good reputation, but if your firm falls apart after you leave, that reputation might begin to sour. Nobody wants to sacrifice their legacy unnecessarily.

There are three main consequences which follow not planning for a satisfactory succession. Firstly, investors may nominate, or force you to nominate, successors you would never have picked had you the time to do so. This could jeopardise your vision for the company. Secondly, you may take your golden handshake, and vanish from the market along with your firm. This amounts to a sacrifice of the momentum and hard work which goes into building a firm which thrives. Thirdly, headed up by a group of lacklustre successors, your firm enters a slow but sure decline, as the talent which you nurtured leave. None of these situations are remotely unusual. A final possibility is failing to notice that it is the right time to leave. It's better to leave the party when things are still fun, rather than staying too long and losing favour with the host. The unfortunate truth is that all leaders have a point when they pass their prime. Good leaders know when their time is up, and when their successor's time has come. How can you avoid that fate?

Recruiting Successors

How do you pick the talent? There are two things to bear in mind. Firstly: no one is irreplaceable. If you disagree, there's no chance of succession. Secondly: internal is preferable to external recruitment. This is because it really takes a whole fund cycle to assess the capabilities of individuals, and to build the necessary trust. Trust is not about an exact overlap of philosophies. Rather, it is about confidence in the capabilities of another. This kind of confidence is much less likely if you hire externally. Recruiting internally allows you have a greater say in the future of your firm after you leave, and you can be sure that who you hand the keys over to is compatible with your objectives, ideals and values. This ensures more predictability and can reassure investors that a change in management doesn't have to mean a change in performance.

Getting the Timing right

Firstly, you must look ahead to when the next fund is likely to close. This is the best, and most natural time to change leadership. Secondly, you must look at the age of the individuals involved. How old will the leadership be when the fund wraps up, and how old will the young stars of the fund be? Ability is not evenly distributed throughout the career. The young are ambitious and energetic but cannot match the senior team for their knowledge and good judgement. There also comes a point when one's knowledge of detail begins to break down. The hires which will furnish the pool from which successors are chosen should be made when a leader is at their peak: that's the time when they will be able to judge prospective hires most carefully, and with most reference to their attention to detail. As it is said: Tier 1 people hire Tier 1 people, and Tier 2 people hire Tier 3 people. Hire when you are at the top of your game. Yet perhaps more importantly, when the leader is at the peak of their career is when they can attract the best talent.

Both these points lead to a single observation: start early. The last thing you want to happen, is to be pressured into the promotion to leadership positions of partners who are not fit for the job. We have seen this happen, and it may not end well. It is advisable to consider preparation for succession as an investment: hire more employees than you need to, if it means that you will end up with a better selection of trusted employees who are fit and ready for promotion. This will pay off in the long run. But an important rule of thumb is that developing successors will almost always take longer than you think.

Finally, we must consider succession-friendly culture, and how to cultivate it. We have already mentioned trust as essential. A virtue sister to trust is transparency. Transparency is the best route to smooth transitions of authority. An environment wherein an employee may ask their boss, "What do I need to do to be promoted to managing partner?", and get a straight answer, is one where it is possible to have the kind of long-term building of trust which is required.

Conclusion

It takes long years of hard work to establish a great firm, and strong relationships with investors and with clients. Securing a legacy to match is the final act of any great leader. Unfortunately, the best time to start preparing for succession might be 10 years ago. Planning early and hiring at the peak of your performance to ensure well trained and well trusted successors is the best strategy. Yet it is also important to ensure an atmosphere of trust and transparency in your business. If juniors cannot see the possibility of being the successors, they will not strive to make themselves into this role and you may end up lacking the talent pool when you need it.

by Diana Meyel
