

Personnel File

Are We Ready to Pass the Leadership Baton?

by Matt Slepian

Finding and grooming the next generation of leadership is an essential task for many Fortune 1000 companies. Management teams and boards of directors spend an inordinate amount of time articulating clear succession strategies. It's often the make-or-break difference in whether a company sustains itself for future generations or not.

However, in the commercial real estate industry, succession is largely ignored. Let's face it: The GE model, which trains several lines of management at once, hasn't made its way into our industry yet. But it needs to.

Here's why:

Our industry is becoming more institutionally driven, yet the leadership base is filled largely with first-generation entrepreneurs whose names are still on the door. The entrepreneurial imperative in the real estate business has valued transaction skills above all else. And that's not necessarily a bad thing. To their credit, those entrepreneurs built large real estate portfolios and often took their companies public. Very few leaders in these firms had prior public-company experience, which lead to some of the leadership challenges we face today.

But, if dealmakers are the most valued folks in the business, those on the other side of the coin, those in operations, remain stepchildren. Fortunately, things are changing. Public companies are placing increased value on the discipline of operations. This is most likely a good thing since in larger companies, a majority of revenue and growth will come from internal operations instead of new deals.

GE cross trains people for leadership throughout their careers. Is the commercial real estate industry applying similar principles? Are we training our next generation in the range of key disciplines: finance, transactions, operations, marketing and capital markets? Besides rotations through different disciplines, are we grooming those people that have the personal stature and qualities to be a great internal leader as well as a great industry leader?

Consider the following steps. Identify what skill sets are needed to take your company to the next level, keeping in mind that wisdom, strategic vision, leadership skills and the ability to act in the high glare of public scrutiny are mandatory. You can't promote the head deal-guy or the head of operations into these roles directly. Well before it's time to appoint the next CEO, plan to groom several people for the slot. Look both inside and outside. That means inside and outside your company as well as inside and outside of the industry.

You may be surprised at who rises to the top. To use a sports analogy, consider the differences between the manager of the San Francisco Giants, Dusty Baker and one of the team's key players, Barry Bonds. When you think of Dusty, think of one of the leading REIT CEOs. When you think of Barry, think of that great gun-sling-

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ing deal guy. He's one of baseball's best players, but he would make a lousy manager. Given his personal qualities, no one would think of grooming Bonds to take Baker's place 10 years out. Such is the difference between the best deal guy and the best REIT CEO. Barry makes a whole lot more money and probably has a lot more fun than any CEO. What a challenge.

Another question is one of scale and whether or not the existing leadership pool has what it takes to run huge, complex, public companies. The top public real estate companies are now operating at a scale previously unheard of in our business. For example, the largest REITs are well in excess of \$10 billion in value. The real estate industry has never seen companies this size, and their success will come from scale, efficiencies and synergies across various sectors and geographies. Who, five years from now, will be the next generation of leadership for these types of companies? When the next major change takes place, they may benefit from a world-class executive from another industry who can help take the company to another level.

We asked this question to a REIT CEO several months ago. We talked about promoting internally, as well as the challenges of bringing in people from outside the industry. He actually flipped the question around and asked, "When will the first real estate CEO be recruited to leave the industry to run a bigger, more challenging non-real estate company?"

These issues resonate at all levels. It should affect how you manage your own career; how you build your company's business; and, on a macro level, how the industry as a whole addresses leadership as the business continues to consolidate and institutionalize. In many ways, this is really a wake-up call for the real estate business to focus on building the next generation of leadership. Now that we are a more public, institutional business, we will have to seek and groom a new generation of leader far different from those entrepreneurs who brought us here.

(Author Credit: Matt Slepik is an executive recruiter based in the San Francisco Bay area.)