FEATURE STORY

Succession: ABL Industry Needs a Plan

BY CHARLIE PERER

The ABL industry is struggling with succession challenges. Founders are synonymous with their firms, yet many lack succession plans despite good health and changing industry dynamics. The generational shift demands innovation and client-centric approaches. Planning and communication are crucial. Unlike TV drama, ABL leaders must ensure smooth transitions to secure their legacies and firms' futures amidst industry upheaval.

Succession is an American satirical comedy-drama television series centered around the Roy family, the owners of global media and entertainment conglomerate Waystar RoyCo. The premise is that the patriarch, Log Roy, has experienced a decline in health and his four children begin to prepare for a future without their father and vie for prominence within the company. Apply this to the ABL industry and many of the leading bank and non-bank groups are synonymous with their founder(s) who have yet to set a succession plan. In many cases it's hard to separate the two. It's easy to understand as, for many of these entrepreneurs, lending is and has been their life, and their business and personal relationships are intertwined. Thanks to modern medicine, many are also in good health so it's understandable to think they might work for a while. Ironically, this has potential to create a conflict as the next generation gets impatient. There is a generational change happening now that encompasses everything from where employees work, how they work and technology change, among other things. At some point though this industry is going to need a succession plan as the industry is going through a sea of change.

Succession dynamics will always remain, however, the difference now is that there is much more capital and control from sponsors and asset managers, etc. that will cause the new management to be under more pressure. They will have to stick to basics or they will fail. Change is never easy and often comes at times of significant industry and technological change like we are dealing with now. Many of today's leaders took over the reigns 20 to 30 plus years ago during a period of immense change, which included the formation of the first wave of sophisticated ABL platforms such as Foothill, GE, CIT and Fleet, among many others. As a result, today's leaders came of age in a different time, lending climate and even culture. What also should be said is that the historical view of the borrower as a debtor is being re-imagined in today's climate. This is due to the multitude of options available today and also more layers involved, ie investment banks, FAs, consultants, etc. to actually reach the client. We are entering a different lending climate where the customer experience and process matter more than ever as the borrower's options are greater than ever.

The next management change that takes place is going to usher a new era of product innovation (already happening), customer experience and workforce development. There is also occasionally a disconnect between how things are done today and recognizing some of the change management that a new generation plans to implement. This will include both internal changes with employees (i.e. work/life balance, telecommuting, etc.) and externally with clients. Handing over the reins to the next generation of management was a significant step at many legacy institutions 20-plus years ago in ensuring continuity and growth within the organization. It involved identifying and grooming talented individuals, providing them with mentorship and opportunities for growth, and gradually delegating responsibilities to them as they demonstrate readiness. Effective communication, support, and a clear succession plan were key elements in the process, ensuring a smooth transition and maintaining organizational effectiveness. Creating and enacting this plan is a multi-year and often times challenging endeavor as it does involve picking certain people over others, among other things.

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The challenge is severalfold, with the first one being that there are a number of really talented executives out there who are patiently and, in some cases, impatiently waiting to get their chance to run a group. The next is generational divide as the lending framework has changed considerably with everything from tech to the advent of EV ABL lending, among other things. The pace is faster, the options have increased and any firm of size needs a real bench of talent. Another factor, similar to Succession, is to plan ahead and communicate it. We are now starting to see just this with recent announcements from both CIBC and others to start to the lay the groundwork for the future. The latest examples set a good precedent for how to plan internally and also to the market at large.

The end of the *Succession* series was equally anticipated as that of *The Sopranos* and did not disappoint. The patriarch (spoiler alert), of course, failed to plan his succession leading to a boardroom showdown between and among the four siblings with none becoming CEO. In the end, an outsider was picked to lead and each of children went their separate ways. TV always makes for great drama, but in the case of the ABL industry we are going to see less dramatic versions of *Succession* play out over the next decade. Let's hope the leaders of the ABL industry start thinking through their ultimate succession plans so we leave the drama to the TV series. Unlike the TV series, we should expect to see a much more thoughtful transition in the ABL industry where TV ratings aren't at stake, but rather the legacy of retiring executives and the future success of the platforms they helped to build.

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