

# Long-Lasting Organizations Prosper Through Careful Planning



**Thomas Pendleton** is a partner at MacDonald Illig and has been representing businesses, nonprofit corporations, and individuals in a wide variety of legal matters for more than 25 years. He concentrates his practice on business matters, including preparing agreements and commercial litigation.

As you can see from the logo below, MacDonald Illig can trace its existence back more than a century, to a partnership formed in 1897. We take pride in our firm's history, but this longevity is not an accident. This longevity is the result of faithful clients who have remained with the firm for many years, wise investment in people and technology that are needed to provide legal services, and the willingness of people to work together to deliver those legal services.

Standing alone, however, those factors are not sufficient to provide longevity for a business. Most business organizations last about 35 years before they are dissolved or sold. Preparing to transfer an organization from one generation of owners and

leaders to the next generation is known as succession planning.

Succession planning is not a single event; instead, it is an ongoing process that can take time. It is not about damage control or replacing a key leader as quickly as possible. It is about replacing a leader with someone who is prepared for the role, with the potential to succeed, and can shift into the position quickly and successfully.

The five components of a succession plan listed below can help make a transition more successful:

#### **A strategic plan for the business covering the next five years.**

What resources are available to the company and what risks will it face during this period as it implements the plan? The resources include money, people, and intellectual property. The risks include changes in customer or supplier behavior, economic risks, and employees retiring or moving.

#### **A financial plan for the business owner.**

If the owner knows what his or her goals are, what assets are available to fund those goals, and what cash flows are available from the business to fund those goals, the business owner is sometimes more willing to step away from the business. That financial plan may include transferring

ownership to a group of rising employees.

**Ownership transition.** This involves multi-year strategies to maximize tax efficiency. A challenge includes determining who will hold voting control of the business.

**Leadership transition.** The business must determine whether a family member or a non-family member is best able to lead the day-to-day operation of the business. The current leader also must find a new purpose in life to allow his or her graceful exit from the business. In addition to the top leadership position, other key positions should be identified. Develop job descriptions that can be used to recruit candidates and eventually name a successor.

**Governance.** How will key decisions be made? Decision-making frameworks can include an advisory board, a formal board of directors or a family council.

A succession plan should be re-evaluated and updated annually or as changes within the company require. Businesses may want to prepare more than one type of succession plan. An emergency succession plan is put in place when a leader needs to be replaced unexpectedly. A long-term succession plan helps the company account for anticipated changes in leadership.

Although creating a succession plan may seem daunting, there is a saying that, "Perfection is the enemy of good." Your organization's succession plan does not need to be perfect, but it does require the investment of time, money and effort. ■

*The professionals at MacDonald Illig are available to provide your organization with their expertise as you prepare the foundation for your business to exist for many years to come. To learn more, visit [mijb.com](http://mijb.com) or contact MacDonald Illig Attorneys at 814/870-7600 or [info@mijb.com](mailto:info@mijb.com).*

**125<sup>th</sup> ANNIVERSARY** **MACDONALD ILLIG ATTORNEYS**

TIMES CHANGE. GOOD COUNSEL DOESN'T.