

Action! Why Family Businesses Can't Wait for Succession Planning



The integration of both generations in this planning should facilitate the mentoring of the new leadership by current leadership while emphasizing the value to be derived from these new leaders. Mutual trust and family relationships can grow as retiring family members become confident in the abilities of the younger generation, while this younger generation can be motivated by the trust given by the older generation.

Successful Ownership Succession

The implementation of established operational and ownership succession plans can be done simultaneously or in stages. For most businesses, the need for operational planning precedes the need for ownership succession. Guaranteeing that the family owned business continues to be well-managed then allows the family to focus on the subsequent process of ownership succession.

When the planning focuses on ownership succession, the same principles of inter-generational planning and communication should apply. Defining each generation's objectives for transition is essential as competing goals often exist and need to be balanced, along with the tax and legal implications of ownership transition.

Given the breadth of ownership transition options available to family owned businesses, outside assistance from attorneys, accountants, and consultants can be essential in evaluating these numerous choices and their impacts. Third-party assistance can ease stressful discussions amongst family members and provide a neutral voice in the event of disputes.

Once a plan for ownership succession has been developed, it should be reduced to writing, often in the form of a shareholder or buy-sell agreement. This document then acts as a guide for the implementation of the ownership succession plan but can be amended should circumstances change.

While challenging, succession planning can assure a family owned business's longevity and positive family dynamics while guaranteeing that the business does not provide the script for the next great TV drama.

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an effective plan, families should focus on two areas of succession — operational succession and ownership succession.

Optimal Operational Succession

In constructing an operational succession plan, families should assess the business's current governance and operations. Family owned businesses often face the challenge of balancing generally accepted management principles with how the business "has always done things." Developing and implementing sound operational and governance principles, while recognizing some of the idiosyncrasies of family-owned business, can reduce frustrations when creating the succession plan.

The evaluation of company governance should include a review of the company's organizational structure and governance documents. Businesses should amend, if necessary, bylaws, policies and operational manuals, as these written documents will guide current and future business operations and result in stable company governance while leadership and ownership transitions.

One key in formulating an operational succession plan is the communication of the roles to be assumed by future business leaders and the timeline of transition. Definitive strategies and written plans that outline leadership roles and the expectations associated with each should be established in collaboration with both incoming and outgoing family members.

Popular television shows, such as "Succession," derive much of their drama from the turmoil that results from the failure of a family owned business to implement a definite succession plan. While these shows overdramatize, art imitates life as many family owned businesses do not have viable succession plans.

Robust Succession Planning

According to PWC's 2021 Family Business Survey, only 34 percent of surveyed companies had a "robust, documented and communicated succession plan." Family owned businesses that have not embarked on the succession planning process are susceptible to substantial risks — fractured family relationships, company instability, and the erosion of trust in the company — fodder for successful TV and unsuccessful family owned businesses.

To avoid such notoriety, family owned businesses should begin developing a succession plan as early as possible before a crisis forces its creation. When designing