

# Thinking ahead

Succession planning helps companies survive dramatic change events

INTERVIEWED BY ADAM BURROUGHS

Succession planning is the process of preparing a company for a change in control. Unfortunately, most business owners do not have a succession plan in place and delay thinking about one until something happens that disrupts business continuity, a catastrophe or a sale opportunity arises.

“Most owners tend to put off succession planning,” says W. Chad Pociernicki, an attorney at Sherrard, German & Kelly, P.C. “However, it is a process that should always be on the agenda. Ownership and key personnel should regularly think about and devote time to planning what would happen during a change of control to maximize value and minimize the chance that owners end up dissatisfied, or leave an unplanned or undesirable legacy.”

*Smart Business* spoke with Pociernicki about succession planning, what is involved and how to get it done.

## Why is it that so many companies do not have a succession plan?

Succession planning requires longer-term thinking, which is difficult in a world where there are always fires to put out and pressing shorter-term goals and challenges.

It is important to understand that succession planning is a process. Plans should be assembled over time and revisited annually or quarterly just the same as other routine business issues.

## What are the core elements of a succession plan?

Fundamentally, succession planning is making sure there is a plan for business continuity so that transitions to new owners or management occur in a way that does not harm the business. This requires a plan to cultivate and keep key people and

assets during a transition, maximize value and minimize risk.

Valuation is also important. Owners should understand the true market value of their business today, and on an ongoing basis, and have a good understanding of the potential market for their business.

## What scenarios call for a change of leadership and how does succession planning differ for each?

There are three major events for which to plan. The one many do not like to think about is death or debilitating injury to an owner or key member of the business.

In a situation in which an owner or key manager is actively involved in operations, it can be difficult and disruptive if that owner is suddenly absent. Remaining owners and managers, surviving spouses and family members, or whoever is trying to run the business may be unable to maintain operations in the absence of a plan. They are left trying to cobble together a succession plan, and that can cause the business to lose value.

Companies need good contingency plans that diversify responsibilities and address maintaining continuity. Sometimes insurance can also assist in the event of a catastrophe, adding cash to the business and easing the burden on other owners and partners suddenly faced with



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an unexpected change in control.

Anticipating even more orderly management succession is important, as well. Those who could run the business by stepping in to fill important roles in the event those currently in key positions are absent must be identified and incentivized to remain after a business transition to ensure continued effective management of the business.

Lastly, business owners that plan to sell their businesses need a plan that minimizes the tax effects and maximizes the value while maintaining business continuity until a sale is finalized.

## Why should legal counsel be a part of a company's succession planning process?

Legal counsel has experience handling all aspects of succession planning. They are an essential part of the succession planning team, which should also include key business advisers such as accountants and bankers. A lawyer can help coordinate efforts between team members while developing and implementing a process to create the succession plan, keeping the process moving along while offering expertise and documentation when needed. Having experienced legal counsel on the team will help owners stay on track so they can create the plan they need to secure their future. ●

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TOO LONG TO PREPARE  
YOUR COMPANY'S  
SUCCESSION PLAN?



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