Law Trends

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Causes of Succession Planning Crises

By David C. Krock

Why do some family business owners fail to plan effectively for business succession? There are at least six reasons:

Difficulty Delegating

Business owners tend to have strong personalities that make it difficult for them to relinquish control or delegate key responsibilities. The business owner may be performing several key functions that should be delegated. The owner is just too busy and succession planning is relegated to the back burner. An effective succession plan will allow others to slowly assume responsibility for key functions and to become future leaders. Delegating important functions may be threatening to the business owner, making it difficult for him or her to hire and mentor successors.

Fear of Change

Any change in the owner's leadership role may represent a reduction in the owner's perceived significance to the community, the organization, customers and suppliers. Change is resisted because the owner cannot accept doing anything differently.

The "Superman" Problem

Business owners often perceive themselves as invincible and view discussions regarding succession planning as premature.

Concerns About Ability to Maintain Lifestyle

Business owners often reinvest their profits in their businesses. Therefore, much of their net worth and income is directly tied to the businesses, making the business owners dependent on the businesses to maintain their lifestyles.

Fear of Conflict Over Choice of Successor

Owners are reluctant to make difficult decisions regarding the selection of capable future leaders. Selecting key family members -- or an outsider -- may create so much intrafamily conflict that the owner avoids the decision altogether. Delaying these decisions may have the unintended effect of causing one or more family members to leave the business. The family member who leaves the business may actually be the most qualified person to run the business.

April 2006

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Concerns About Treating Children Fairly

The concept of dividing one's assets equally among children often conflicts with the idea of distributing assets equitably. Dividing an owner's interest equally among children may seem like the right thing to do (and what children may be expecting). However, if such a division does not provide for a structure that will allow the business to prosper, the business may fail, and the company and the family's future livelihood may be put at risk. Reluctance of the owner to address the prospective inheritance issues (and possible differences) of children working in the business vs. children outside the business is a significant impediment to succession planning.

For more information on succession planning, please contact Mr. Krock at 419-241-6000. Mr. Krock is a member of the Firm who practices in the areas of business succession planning, estate planning, charitable planned giving, plus he advises small and medium-sized businesses with regard to their general legal needs. Additionally, Mr. Krock is an Ohio Certified Public Accountant (inactive) and is listed in The Best Lawyers in America.

This article was originally published in the Summer 2006 issue of Succeeding Generations, the University of Toledo Center for Family Business's newsletter. Eastman & Smith Ltd. is one of the Center's sponsors with Mr. Krock serving on their advisory board. CFB was founded in 1992. Its purpose is to support the needs of family businesses in Northwest Ohio and Southeast Michigan. More information on CFB can be found on their web site www.business.utoledo.edu/COBA/CFB/CFBRev.asp.