

# Ensuring family business continuity

How to cultivate continuity and value within a family-owned business **Interviewed by Bridget McCrea**

**O**ver the next 10 years, 70 percent of America's family businesses will transition in some way. Some will be passed on to the next generation, others will be sold, and a few will open their doors to include non-family management and/or ownership. A high number of them will wind up closing their doors or selling; potentially ending up in a disruptive state as a result of poor business continuity planning.

"The elder statesman of the family doesn't always weigh out his or her options when it comes to business longevity," says Ronald Sofranko, vice president of the Family Business Center at NexTier Bank in Cranberry Township. "I've seen family businesses go down with the ship because they're still relying on the business model that grandpa created 50 years ago."

*Smart Business* spoke with Sofranko about the importance of continuity planning and the strategies that families can use to ensure that their legacies stay intact for future owners.

## Why is it vital for family businesses to be thinking about continuity right now?

Family companies face special issues when it comes to business continuity, and as a result should always be thinking about how to create the most seamless transitions possible to the second, third, fourth generations and beyond. Take the company that's been around for 25 years, where the owners, their children and grandchildren all participate in the family business. Not only does that company affect the family, but it also has a significant impact on the surrounding community, its suppliers and its long-term employees. In carrying on that business, the firm's ownership must consider not only the family and the business, but also the community where it has become a mainstay in its specific industry.

## Why are progress and continuity so difficult for family businesses to attain?

It's a great pride issue with a lot of fami-



**Ronald Sofranko**  
Vice president, Family Business Center  
NexTier Bank

lies to be able to say that grandpa or grandma started it, and now the grandchildren are taking over. Unfortunately, it's also very hard for the elders of the family to "let go." Not knowing what life holds beyond the business that they've helped build and understanding that life spans are increasing, parents can sometimes face significant challenges in passing on their legacy to their children. They're reluctant to hand it over, and they don't always have confidence in the fact that their children will run the business properly. The fears are often unwarranted when the children come up with even better ideas for the business.

## How can a business go about ensuring that its legacy is indeed passed on and that there is business continuity from one generation to the next?

The first step is to identify who has the highest desire to run the company and which child would be the best candidate to do so; based on geographic proximity to the business, personality, interests, educational background and so on. Communication is key at this point, as parents need to be able to talk to their children about the future of the business and each

child's role in the company.

The next step is for the parents to fully embrace the fact that a transition is going to happen, and to spend time planning out exactly how it's going to take place. During this stage, it's important to be both fair and equitable, and to include all siblings — even those who are not going to be running the business. Everyone needs to know where they're going to fit in the scheme of things.

## What challenges do family businesses run into with these issues, and how can these problems be avoided and/or solved?

Many parents are in denial and can't accept that it's time to move on. They've had no life outside of the business, and they don't really know what they're going to do once they retire from the family business where they've worked since they were young children. Unprepared for the next phase of life, they have a hard time taking a deep breath, stepping back and letting someone else take over.

From a family standpoint there are also egos to contend with. Greed and selfishness can creep into the situation, making any transition especially difficult to manage. Family-run businesses need to focus on good communications, fairness and equality when planning for the future.

## What other advice would you give a business that's looking to implement some of these strategies right now?

They must recognize that there is going to be transition, and not be afraid to go outside of the family to seek guidance. Get someone involved who can listen to the issues at hand, address the "pain" points, and really understand what's at stake during this transition.

**RONALD SOFRANKO** is vice president of the Family Business Center at NexTier Bank in Cranberry Township. Reach Sofranko at (888) 829-2162 ext. 4 or [rsufranko@thebank.com](mailto:rsufranko@thebank.com).

Insights **Banking & Finance** is brought to you by NexTier Bank