



COMPANY SUCCESSION AND GENERATION CHANGE



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An early and professionally accompanied planning eliminates stumbling blocks from the way and ensures a successful continuation of the life's work.

A generation change at the top of a company is a complex process that poses many challenges for both the entrepreneurs concerned and their environment. Besides material, financial and legal aspects, idealistic values and emotions are inevitable involved in succession planning, especially in family businesses where business and private life are difficult to separate. Therefore, corporate succession as a decisive stage in the life cycle of every company has to be taken into account timely and has to be planned, accompanied and professionally implemented in a practice-oriented manner.

The aim of a successful succession plan is to meet all the expectations of the different actors involved in the best possible way and to identify, take into account and solve associated conflicts already in advance. In most cases, very individual factors are decisive: every entrepreneur shapes the company in his or her own way, (and) every family has its own structures and ties.

Often, there are very individual wishes and sensitivities; for example, it can be central for an entrepreneur that in the context of the handover - beside the

securing of the company and their often long-term employees -, he or she wants the preservation of the production site and the securing of jobs. Another would like to see his focus on expanding in the further development of the company. In addition, the demands that an entrepreneur makes on his or her financial situation after having left the company can also differ fundamentally.

To avoid unpleasant surprises and to anticipate potential stumbling blocks, the succession should - like any other strategic and long-term project of a company -, be clearly structured in phases and milestones. In this way, a clear process can be set up at the beginning, giving the project, which is highly individual in itself, a clear framework and thus makes it possible to work out an optimal solution for the specific company situation. In this context, it is generally recommended that the succession process is subdivided into the four decisive steps briefly outlined below:

1. Inventory: Capturing the current situation

After the entrepreneur has taken the first step to take up the issue of succession, he decided to deal with it, started to reflect on how to shape his life after leaving the company and discussed the subject in the family and the company, the first phase is to get an exact picture of the current situation.

Thereby, all elements - both of the specific situation in the company as well as the entrepreneur's private and individual situation - are to be recorded and defined, whereby already at this stage all other stakeholders (family, management, employees, external partners) shall be more or less included according to the individual case. The aim of this first phase of the process is to identify all financial, organizational, cultural and personal goals and objectives. This includes

on the one hand the entrepreneur's previous role in his company, the requirement profile of the future owner and entrepreneur, the organisation and function of the management, the needs of the family, the ideas and conceptions of the entrepreneur regarding the continuation of the company, but also ideas regarding his next phase of life outside the company. Regarding the latter point, attention should be paid to aspects of matrimonial and inheritance law. The needs of individual persons must be taken into account.

Already in this first stage of the process, the first conflicts of interest among the various stakeholders can usually be identified, which in turn leads to early discussions and - if necessary - allows for the redefinition of individual points. Therefore, the earlier the succession process is set in motion, the more efficient and goal-oriented it can be designed and implemented.

2. Planning: preparation and comparison of the possible strategies and options

Subject of the second phase of the process is to precisely reconcile these as important defined different needs, expectations and demands of the stakeholders, to work out feasible strategies and options for action, to develop various scenarios, to weigh them up by pointing out the respective advantages and disadvantages, and to check them for their feasibility, and to then prioritise them.

The various possible strategies depend largely on the specific family and company structure which is why the possibilities for action can be divided primarily into succession strategies within and outside the family.

As a rule, three different scenarios can be considered for strategies for family-internal succession: First, the family-internal company succession, where one

family member succeeds the entrepreneur by taking over 100% of the ownership of the company; second, the family-internal management succession, in which the company is 100% owned by various family shareholders and one or more family members take over the operational management; or third, the option of an external management under family control, in which an external management continues to run the company as an employee or shareholder, while the family keeps sole control over the company as owner or majority shareholder.

As possible scenarios for a succession outside the family, six options are for selection: First, the management-buy-out, in which executives buy the company from the entrepreneur and thereby achieve full operational and financial responsibility; second, the management-buy-in, in which an external management buys the company and then full operational and financial responsibility takes over; third, the participation or takeover by a financial investor, who partly or fully participates in the company, depending on the design of the transaction the entrepreneurs or his successor remains in the company; or the investor himself establishes its own management; fourth the option, of selling the company to a strategic investor if an industrial partner is interested in the products and know-how of the company and/or simply in more market share; fifth, the merger with another company if know-how, products or market segments optimally complement with another company, whereby the question of personal succession is only then really solved if the partner company enacts about sufficient management skills; and sixth, the option of opening up the company to the public by flotation, whereby the family remains involved in the company to varying degrees after the initial public offering.

3. Preparation: Paving the way for a smooth handover

The third step in the succession process can develop over a very long period of time as this is where the company itself and all involved actors - in particular the entrepreneur and the potential successor - are prepared as optimal as possible on the implementation the selected

transfer strategy. What needs to be done in this phase depends largely on the chosen strategy, but also on the existing structures in the company. The crucial point is, that in this very important phase, all the interests of both the company and the entrepreneur privately need to be optimised for the handover. An active and transparent communication is essential.

In addition to the valuation of the company, this process step is central because it serves to ensure the transfer of know-how from the entrepreneur to his successor, but also to the retention and formalization of further knowledge, which is probably only in the minds of certain individual employees. At this stage, it is also very important to set the financial course by supporting the potential successor in drawing up a business and liquidity plan, by the adjustment of structures and processes (preparation of organizational charts, directives, contracts, controlling and reporting instruments, etc.) and by eliminating past risks (e.g. protection of intellectual property, remediation of contaminated land). For the entrepreneur, the time has now also come to clarify his private asset structure and to clarify his new needs for the time after the handover.

The extensive clarification and consideration of legal and tax aspects is of particular importance, especially since the succession process can contain various tax and legal pitfalls on a case-by-case basis.

From the company's point of view, this makes it even more important to conduct case-specific reviews of legal form, different approaches of family-internal or family-external regulations, review and possible revision of existing shareholder agreements (including preemptive rights, statute revisions, valuation modalities, dividend policy, safeguard clauses etc.), the clarification of various issues in connection with dividend payments, tax rulings, relocation of the registered office etc. From the entrepreneur's point of view, this includes examination and optimisation of matrimonial and inheritance contract regulations, possible claims for compensation under matrimonial regime, the preparation of provision orders, emergency plans and other specialities related to individual cases.

4. Implementation: The successful handover of the company

This last process step of the handover at family internal succession strategies is in many cases an actual handover phase, which can even last in individual cases several years. Depending on the circumstances, the entrepreneur may retain his previous function for a certain period of time and at the same time introduces his successor to the business of the company. In an external sale however, the handover usually occurs abruptly or at least within a rather manageable time frame.

As outlined above, a successful succession requires the early entry into a longer-term and not always straightforward process as well as a comprehensive examination of the entrepreneur with various scenarios. Some turnouts have to be set long before the actual handover.