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Dangers of not creating business transition plan

The role that privately held companies play in the Washington economy is significant and growing. It is also threatened.

In 2000, 98 percent of the state's businesses consisted of companies whose shares were not traded on the open market, with more than 1,300 privately held companies valued between \$5 million and \$1 billion. These companies provided 55 percent of all private-sector jobs and \$38.8 billion of all private-sector payrolls.

Moreover, the central role of the privately held business — in maintaining stability and continuity in a community by providing stable or growing employment, tax revenues and community support — is often overlooked. For example, when small companies were adding 11.1 million new jobs in 1994-98, large companies were downsizing. Among privately held businesses, family businesses — or those with direct family operation/ownership including more than one family member with considerable management responsibility — make up a significant portion: Nationwide, more than 3 million family-owned companies exist.

Though family businesses have a huge impact on the private business sector, their likelihood of surviving beyond the initial generation is low: Historically, only 30 percent of family businesses make it to the second generation. As time goes by, these numbers narrow even further. Only 12 percent of family-owned businesses are still viable into the third generation, and just 3 percent of all family businesses operate into the fourth generation and beyond.

The prognosis becomes acute when we consider that more than 40 percent of all

family businesses are currently going through, or anticipating, a transition to new leaders and owners. Yet many family businesses are unprepared: 60 percent do not have a written strategic plan, even those that know successions are anticipated.

There are many reasons why family businesses fail in the critical transition stages. Among the most serious threats are succession issues and a lack of communication. Not having strategic and implementation plans for succession can cause trouble when it is time to transition and the younger generation is not an appropriate choice. A lack of communication within families can adversely affect the life of a business.

Additional reasons for failure include weak decision-making and inflexibility. Other dangerous factors include conflicting objectives between family members in the business and those not in the business as well as failing to strengthen key management positions held by family and nonfamily members. And not maintaining objectivity — such as allowing blood rather than talent drive the future of your company — can also spell the end of a business.

Finally, aside from doing no planning at all, the most dangerous error is presuming that a death plan, which spells out what to do in the event of the unexpected death of the owner, is the same as a transition plan. The differences are critical.

Although not all factors can be controlled, the good news is that there are many things that can be done to increase the probability of a successful transition. The most important piece of the puzzle is to have a living transition and implementation plan for succession, with key

SUCCESSION PLANNING



Bob Gruber



elements including a thoughtful analysis of the finances of the business and the owner, a defined plan, agreements and training.

A living transition plan acts as the road map for the planned disengagement over time of the current owner from the business in a financially secure manner and the assumption

of responsibilities by the new ownership — whether that is to another member of the family, an internal management group or an outside party.

Identifying all the factors for success is also essential, starting with the financial condition of the business and the personal requirements of the current owners. Other critical factors include retaining key employees and considering the interests of all stakeholders. Not being prepared can lead to a difficult — or failed — transition. The key is to remember that many integrated steps need to be taken to increase the odds of survival. Of these, careful planning, implementation, modifications and foresight are the cornerstones.

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