

Hi, this is Wayne Rivers at The Family Business Institute. Thanks for tuning in. Please click on our social media, and also, we want the benefit of your comments. We appreciate that. Thank you.

So, this week I want to talk about what percentage of family businesses have a succession plan in place. In January of this year, there was a poll taken by the NASBP, the National Association of Surety Bond Producers. These are the surety agents that work with construction firms to make sure they have their sureties in place so that they can get their projects done and keep the owners happy. So, they work very closely with contractors all over the world and know them pretty intimately.

The question was, what percentage of your construction companies have succession plans in place? This is what the answers were. Twenty-four percent said most of the time, 58% said some of the time, 16% said rarely, and 2% said never. That's one-fifth that said rarely or never. Now, I'm not exactly sure how to interpret that: 58% some of the time. But let's just say that means that half of contractors don't have succession plans in place. I'm going to say, if you'll allow this, I'm going to say the percentage is much higher than that, much higher. Now, why do I say that? There are two huge components to any succession plan. What I think the surety agents might be talking about is ownership succession plans. That means if I get struck by lightning, do I have a drop-dead plan? Do I have wills, trusts, other documents that dictate where the company's going to go?

I think most family businesses now, the vast majority of family businesses, have estate plans. They have what, I know it's cavalier, but we call them drop-dead plans because they don't really trigger into effect until lightning strikes or something just as awful happens. What do most family businesses most decidedly not have? Management succession plans. I think people do it backwards. They get with the CPA and the lawyer and the financial planner and they say, "I need wills and trusts," and you should do that. That's a great safety net for your family. You really should do that.

But they don't really have a resource to turn to often for the management succession plan. So, most family business leaders have two-thirds or more of their net worth tied up in their operating business. They do these big elaborate ownership plans, and they spend 5,000 or 10,000 bucks on all these legal documents and everything. But they don't invest nearly as much time and money in the management succession plan. And guess what? If you don't have a management succession plan, you might not have that much to protect. If your business is worth 10 million bucks today, but you don't have a management succession plan for five and 10 years from now, maybe it's not... Who cares who ends up owning a business that's not worth anything. It just doesn't matter. So, the management succession plan ought to come first, and it's a much more elaborate plan. It's a long term plan. It's not about lightning striking. It's about the probability that you're going to live a long time and your company is going to change and evolve and grow and shrink and morph and do all kinds of other things.

I think way more than half of family businesses don't have both ownership and management succession plans. And I'd like to have your comments. I'd like to know what you think, especially those of you in the planning community. I'd like to have some comments from you. What do you think? This is Wayne Rivers at The Family Business Institute. Thank you.