

Why Do Less Than 30% of Family Businesses Survive to The 2nd Generation?

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Editors Note: The following article is being repeated from the November 18th issue of the Family Business Report due to a computer glitch that caused the unedited version of the article to be printed. The following is the correct article.

Less than a 30% success rate is astounding, if not unbelievable. Even more surprising is that the failure to transition a business beyond the first generation is rarely attributable to specific business conditions, like the economy, technology, etc. Most often the failure is directly caused by the ineffective transition of the value and control of the company to the next generation. The good news is there are proven ways to increase your odds of having a successful transition from one generation to another.

Very much like building a house, if the foundation, the framing, the roof, and the electrical are all completed in the correct order, you have constructed a home that will last for generations to come. However, if you begin the framing before the founda-

tion is complete, you will have a very unstable structure and the risk of failure is increased if not guaranteed.

The logic of managing successful construction projects is quite similar to managing a seamless business transition. Before the next step

can begin, you must first be certain the prior step is adequately and accurately completed, or you may continue building on a cracked foundation. However, unlike a construction project, where you are dealing with an inanimate object,

where corrections are simple and less costly, your business, family, customers, vendors and employees are living things. Unlike wood and concrete, people have impressions, feelings and memories, that a poorly executed transition can damage indefinitely. Repairing an ineffective transition of your business can damage or even destroy the very core of what drives the company's entire value.

Although the steps to a successful construction project are far different (and most would argue less complex and far less significant to their net

worth) than successfully transitioning your business, the purposeful order of the key activities is critical to both. This article is the first in a series of nine articles that will discuss "The 8 Steps to a Seamless Transition of Value and Control of Your Family Business," as outlined in the graphic in figure A.

Further in this series, we will discuss each step in more detail, including:

- Why the steps are arranged in this particular order
- What are the specific deliverables and measurables of each step
- Who could and should lead this process to achieve the best results
- Who should, or should not be, involved in each step
- Some lessons learned from those who started with the wrong step, and the huge economic and emotional price they paid to get back on the right path
- How and where to begin

Although there is much written on the "issues" involved in a succession plan, this step-by-step process provides a roadmap to a successful transition that will bring order to the commonly experienced chaos of

transitioning the value and control of your private business. The Goering Center for Family and Private Business's Next Generation Institute focuses its curriculum on eight similar steps to the ones we will be discussing in this series.

One thing is for certain. If the succession of your business is not performed by process (through step-by-step planning), transition by default will be done by crisis (a failure to plan), increasing your business odds of joining the 70% that do not survive.

Look for the next in the series in the December issue entitled, "Step 1 of 8 – The Purpose, Goals and Timeline of Your Succession Plan."

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(Figure A)

