Too Few Small Businesses Are Implementing Succession Plans

By Joseph M. Donegan on May 2nd, 2012

Despite scheduled changes to estate and tax law in 2013, new data shows that not enough small businesses are enacting succession planning strategies and may be putting their companies in danger.

Small companies and family-owned businesses make up between 80 and 90 percent of companies in the United States, and employ 62 percent of the workforce. In addition, small companies fuel roughly 64 percent of the country's gross domestic product. However, statistics from the Family Business Institute reveal only 30 percent of family businesses survive into the second generation, and only 12 percent are still viable by the third, as a result of failed succession planning.

Further, only two-thirds of family business owners report having an accurate understanding of how much they may owe in estate taxes, and one in five owners admit to having no estate tax planning strategies in place, the institute noted.

Business owners also revealed the most common issues associated with developing a succession plan, including leaving the company to a surviving spouse, rather than younger beneficiaries, and creating a plan that would treat multiple children equally. Other smaller businesses often cite being too wrapped up in the day-to-day operations to plan for the future, University of Pittsburgh Small Business Development Center director Ray Vargo told the Pittsburgh Post-Gazette.

Further, experts say that business owners who were proactive about building and growing a company from the ground up may face succession issues if their children and heirs lack the managerial experience or will to keep operations going, the newspaper explains.

Because of these common obstacles, experts say that developing a succession plan early on that emphasizes the financial and tax aspects of transferring a company, as well as cultivating heirs to take on leadership roles, is a crucial element in keeping a company running.