

Hello, everyone. This is Wayne Rivers at The Family Business Institute. Thank you for tuning in.

This week, I want to talk about the statistic, is it true that only 3% of family businesses survive through three generations? Now, why is this important? Well, because this statistic is out there like gospel. In fact, it's often attributed to us, and I get a Google notification each day when The Family Business Institute name is quoted somewhere in the press, anywhere around the world. And this statistic is often attributed to us. I have no idea. Why I get reporters that call, and they say, "You say this," I don't say it. I didn't generate the statistic. There are issues with this statistic that I want to mention. And then we'll talk about whether it's true or not. Okay?

So, it's an old statistic, number one. It actually comes from Dr. John Ward, and it was based on a group of manufacturing companies, a small group of manufacturing companies in the state of Illinois from 1987. So, it's been extrapolated across the world for all these years, but it really comes from a small dataset. Now, somebody tried to sort of replicate that research a few years ago, and it was a mess. I did get a copy of the survey and it was a mess. And it didn't ultimately address the percentages or the failure rates or whatever you want to call them at all. So, this data is really old.

The second thing is, it's from that limited data set, the Illinois manufacturers that I talked about. The third thing is the definition. People say that businesses don't survive to generation two or to generation three. And Dr. Ward actually looked at businesses that survive through. So, to is one thing, that's kind of at the beginning of a generation, through is adding another 25 years. So that makes a big difference in terms of a family business life cycle.

And then finally, the term survive. Do family businesses survive? What do you mean? How do you define survive? For example, we sold The Family Business Institute to Travelers in 2017. I don't own the company anymore, but we survived. But in the statistics, that would count as a failure because it's not technically a family or closely held business anymore. But hey, I'm right here, we survived, and it's not like we didn't.

But there are lots of alternatives to just keeping a business in a family. There's nothing wrong with that. But suppose, for example, that the legacy business begins to fall by the wayside for whatever reason, could we not be in a different business? Well, if you're in a different business from the legacy business, if you were a contractor and you ended up being a real estate development or real estate management company, that's considered a failure because you're not in the legacy business anymore. But you could be just as healthy and just as wealthy over here. And you see why that statistic is flawed. You could have spinoffs or divestitures. You could have a sale of a business outside of the founding family, which happens all the time in the construction business. You could enter a new line of work. I mean, there are lots of ways and lots of alternatives for businesses to succeed and prosper without being owned by the same set of people with the same last name. Right? So, I think there are lots of flaws with that statistic.

Now, we talked recently, the Tom Brady blog, the Superbowl blog, about how hard it is to stay on top. And after 30 plus years of working with contractors and family businesses, I will say that there is some truth in those statistics, that it's very, very, very difficult for any business to succeed beyond one, two, three generations. That is a tremendously difficult thing to do.

As I reflect on 30 years, businesses come and go. And I don't know, nobody knows today what the accurate statistics are. We just know that it's really, really, really difficult to stay on top over the course of many years, and in fact, many generations. So, it depends on how you define success and survival.

I'd like to hear your secrets, your tips, your thoughts on that statistic. Does it ring true to you? And if so, if you have any new information, why don't we crowdsource that? If you have any new information that you've seen, please share it with me and the rest of our audience. This is Wayne Rivers. Thank you.