



**Pacific  
Family  
Business  
Institute**

August 2012

Dear Family Business Owner,

Since the settling of the Pacific Northwest 150 years ago, family enterprise has been the lifeblood of the region. Drawing on early business experience in timber, shipbuilding, banking, and trading, each generation has taught the next to identify market needs and build solid businesses to fulfill those needs. Family businesses reinforce the values, work ethic and entrepreneurial spirit that have made the Northwest great. Today more than ever, family businesses are the cornerstone of our local economy as they continue to thrive, re-invent themselves, and compete regionally, nationally and globally.

The Pacific Family Business Institute is committed to supporting the needs of family businesses based in the Pacific Northwest. To that end, we conducted the *Northwest Family Business Survey* to better understand regional family businesses' perceptions of current business issues and challenges and the benefits and liabilities of family businesses, as well as to receive business owners' insights regarding ongoing business operations.

A full report of the survey findings will be made available upon request. This survey is considered a baseline study and follow-up surveys are being planned.

The survey was designed by the Pacific Family Business Institute and Riley Research Associates. We are grateful for the financial support provided by Perkins Coie and Cascadia Capital.

Feel free to send a note to [info@pacificfamilybusiness.com](mailto:info@pacificfamilybusiness.com) and let us know how the survey results have impacted you and your work. Likewise, if you have specific questions or areas of interest that you believe should be covered in future surveys, we welcome your input. Together, we can continue to support the needs of local family businesses now and in the future.

Sincerely,

Richard Simmonds  
Co-Director

Mark T. Green, Ph.D.  
Co-Director

# Northwest Family Business Survey

August 2012



## Executive Summary

The Pacific Family Business Institute worked with Riley Research Associates to conduct the *Northwest Family Business Survey* to better understand regional family businesses' perceptions of current business issues and challenges and the benefits and liabilities of family businesses, as well as to receive business owners' insights regarding ongoing business operations. One hundred respondents shared their perspectives on the local business environment and their expectations for the future.

Family businesses were asked to indicate the **greatest challenges** they face. The most frequently-cited issues included:

- *Internal Challenges*: Growing sales and revenue (59%), Maintaining/growing profit margin (55%)
- *External Challenges*: Market conditions (51%)
- *Government Regulatory Issues*: Government policies and regulations (62%), Tax policies (58%)
- *Management/Succession Challenges*: Transition and succession from one generation to the next (43%), Growing and training the next generation of family leaders (35%)

Many family businesses are planning to invest in business initiatives in the next two years, namely:

- Marketing/sales activity (53%)
- IT/infrastructure/website (44%)
- Improving business systems and processes (38%)
- Expanding plant/capital improvements (32%)

About half of family businesses expect the number of full-time employees will increase over the next one to two years, while most of the other half expects employment to remain stable.

Nearly half reported an increase in sales revenue over the past three years, although more than one-fourth (28%) reported decreasing sales.

Most agree that family members are prepared with the right training and skills for tough economic times (7.0 mean on a ten-point scale, where 10 means "completely agree").

Finally, most family businesses have a written plan to address ownership and estate issues (70%) and a board that meets on a regular basis (58%), while just half have a written and up-to-date strategic plan (50%) and only one-third have a written succession plan (33%).

## **BACKGROUND**

The Pacific Family Business Institute wanted to better understand regional family businesses' perceptions of current business issues and challenges and the benefits and liabilities of family businesses, as well as to receive business owners' insights regarding ongoing business operations.

To that end, Riley Research Associates conducted telephone interviews, tabulated online survey responses, and analyzed the data. Through the survey, the Pacific Family Business Institute sought to better understand:

- The issues, opportunity, challenges, and benefits unique to family businesses
- The key issues affecting the future of family businesses
- Northwest family business operations and characteristics
- How current and potential laws and regulations affect family businesses

In addition, the survey was intended to create a panel of family business representatives for participation in future studies.

## **METHODOLOGY**

The Pacific Family Business Institute worked with Riley Research Associates to develop a questionnaire. The questionnaire was designed to cover broad issues and to assess which issues are most important to family businesses.

Riley Research Associates conducted most of the surveys via phone. The Pacific Family Business Institute provided the contact list for the phone survey. Riley Research Associates contacted 506 individuals and obtained a response rate of 17% for the telephone portion of the survey.

Riley Research Associates completed 100 interviews (84 via phone and 16 online). All participants were offered a copy of the findings in exchange for their participation. Of those surveyed, 83% agreed to consider participating in future studies and 69% agreed to be contacted for in-depth follow-up if needed.

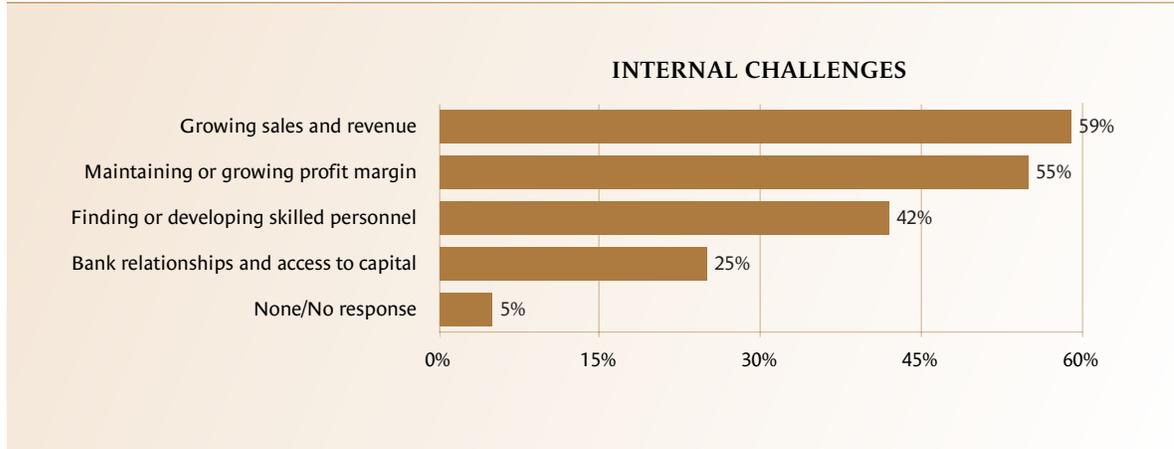
## **BUSINESS CHARACTERISTICS**

The 100 interviews were conducted with representatives of family-owned businesses in Washington (72%), Oregon (27%) and Idaho (1%). The businesses represent a variety of industries, but primarily professional services (21%), manufacturing (20%), and retail (14%) with an average of 40 years of experience.



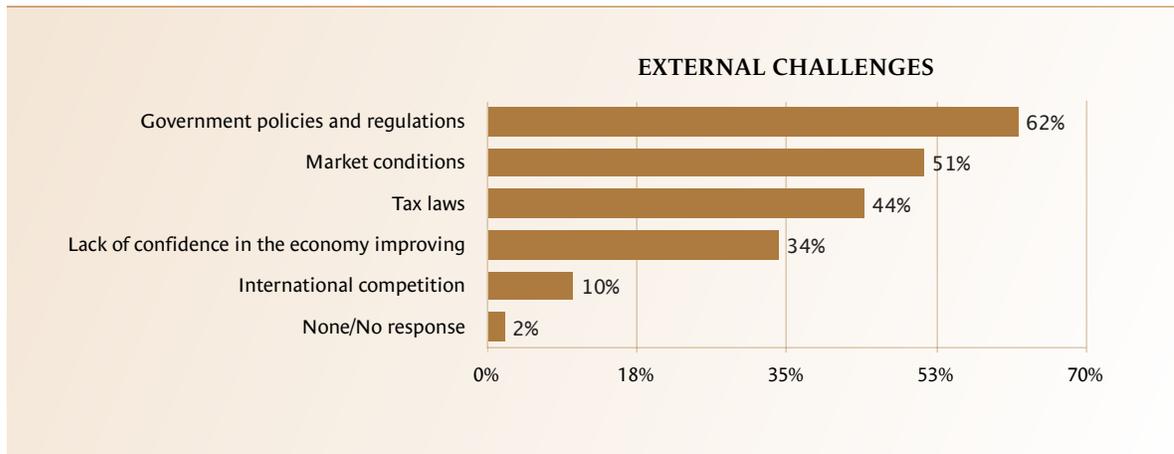
### FINDINGS (continued)

Interviewees were shown a list of five internal challenges and five external challenges and then asked to indicate the top two or three that apply to their family-owned business. Most respondents indicated that the greatest internal challenge faced in their business was growing sales and revenue (59%), followed closely by maintaining or growing profit margin (55%), as shown in Figure 2.



**Figure 2.** Percentage of respondents identifying the listed items as one of the greatest internal challenges facing their family-owned business.

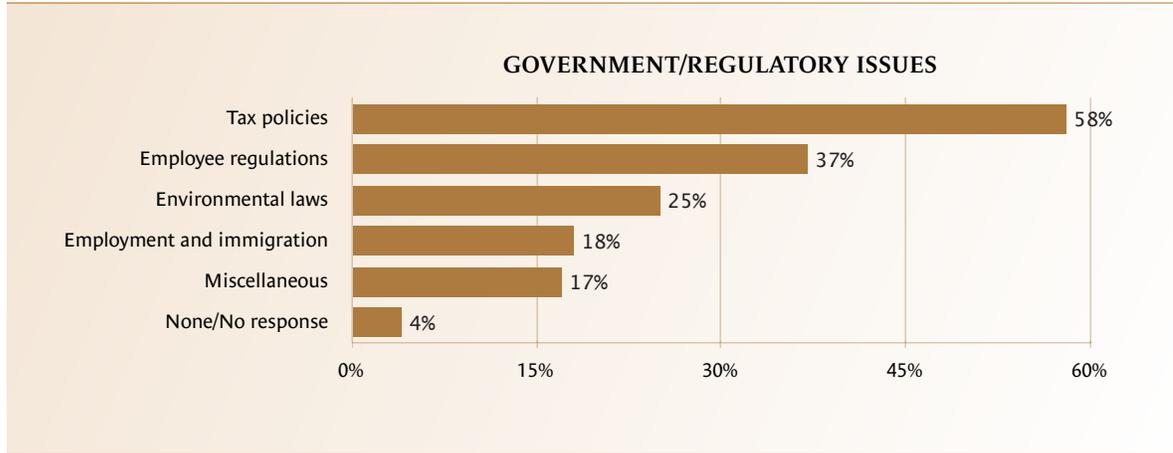
Regarding external challenges, most respondents identified government policies and regulations (62%) and market conditions (51%) as the greatest challenges they face in their business, as shown in Figure 3.



**Figure 3.** Percentage of respondents identifying the listed items as one of the greatest external challenges facing their family-owned business.

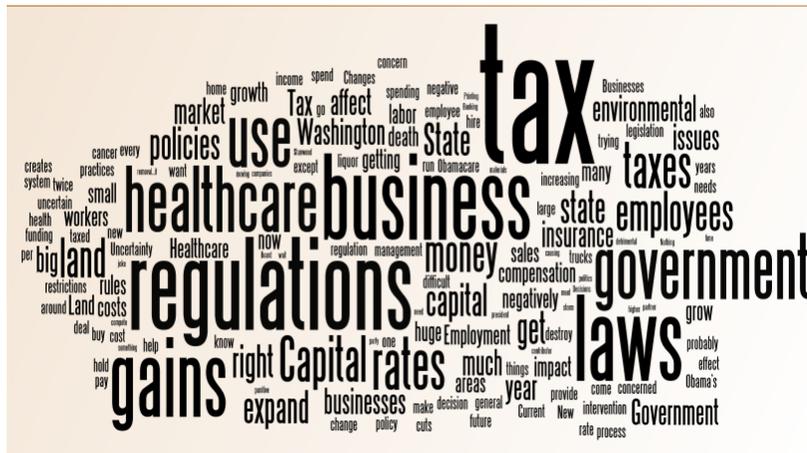
### FINDINGS (continued)

The regulatory issues reported to be of greatest concern were tax policies (58%), followed by employee regulations (37%) and environmental laws (25%), as shown in Figure 4.



**Figure 4.** Percentage of respondents identifying the listed items as the greatest government/regulatory issues affecting their family-owned business

When respondents were asked to describe how existing or anticipated government policy is altering or affecting their company’s decisions, they most commonly referred to healthcare costs and regulations, tax policies and rates, and capital gains, as illustrated in Figure 5.



**Figure 5.** This graphic visually presents the words most commonly cited by respondents describing how existing or anticipated government policy is altering or affecting their company’s decisions. The words in the largest font were the most frequently mentioned, and the words in the smallest font were the least frequently mentioned.

Respondents were also asked to identify the top challenges in the management or succession of their family businesses. Nearly half said transition and succession from one generation to the next was a concern, and many felt that growing and training the next generation of family leaders, interpersonal challenges among the various owners and

### FINDINGS (continued)

family members, and continuing to professionalize and improve the business were challenges they face in their business.

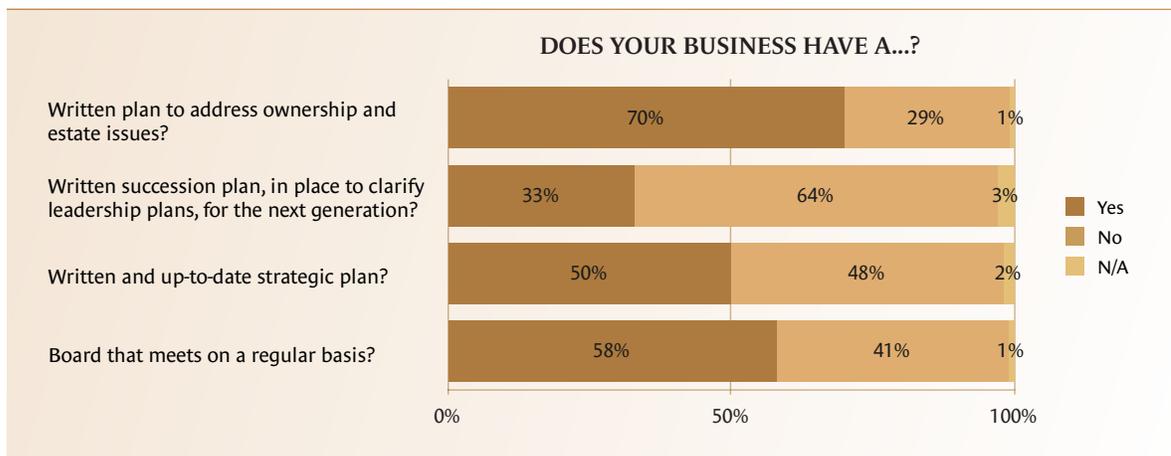
Finally, interviewees were asked to reflect on how recent Wall Street protests, political posturing, and negative media coverage seem to be fostering a negative public perception of American businesses. When asked what they wished government and society in general knew about their family business, most respondents talked about their focus on the community, the hard work that goes into a family business, the way in which government regulations often make it hard for a family to stay in business, the typically smaller size of family businesses, and the contributions businesses make.

### FAMILY BUSINESS PLANNING & PROCEDURES

About half of respondents indicated that, in the next two years, they are likely to invest in marketing/sales activity (53%). Many are planning to invest in IT/infrastructure/website (44%), improving business systems and processes (38%), and expanding plant or capital improvements (32%). Just over one-quarter are planning on HR/training and development/education (28%) and adding personnel (26%).

Many respondents indicated that they anticipate the number of employees will increase in the next year (46%), with an even more optimistic view in the next two years (54% expect an increase in their employees, with 33% anticipating an increase of more than 5%). Very few are anticipating a decrease in their employee base.

As shown in Figure 6, the majority of respondents indicated their family business has a written plan to address ownership and estate issues (70%) and a board that meets on a regular basis (58%). About half have a written and up-to-date strategic plan and about one-third have a written succession plan.

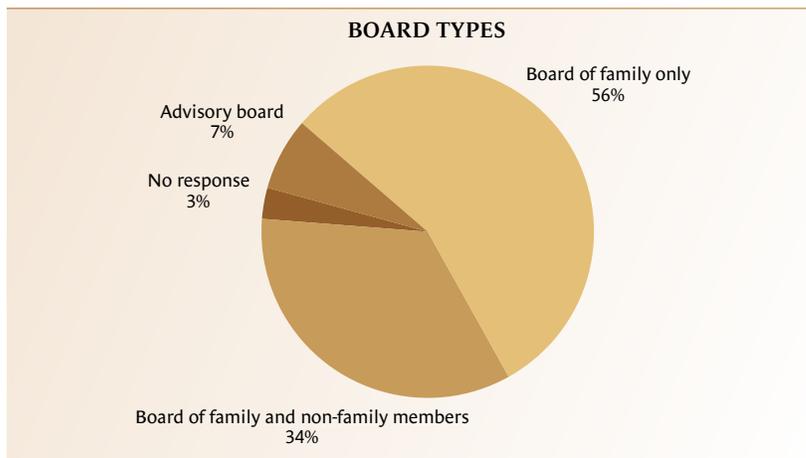


**Figure 6.** Responses regarding succession planning and management issues in family-owned businesses.

### FAMILY BUSINESS PLANNING & PROCEDURES (continued)

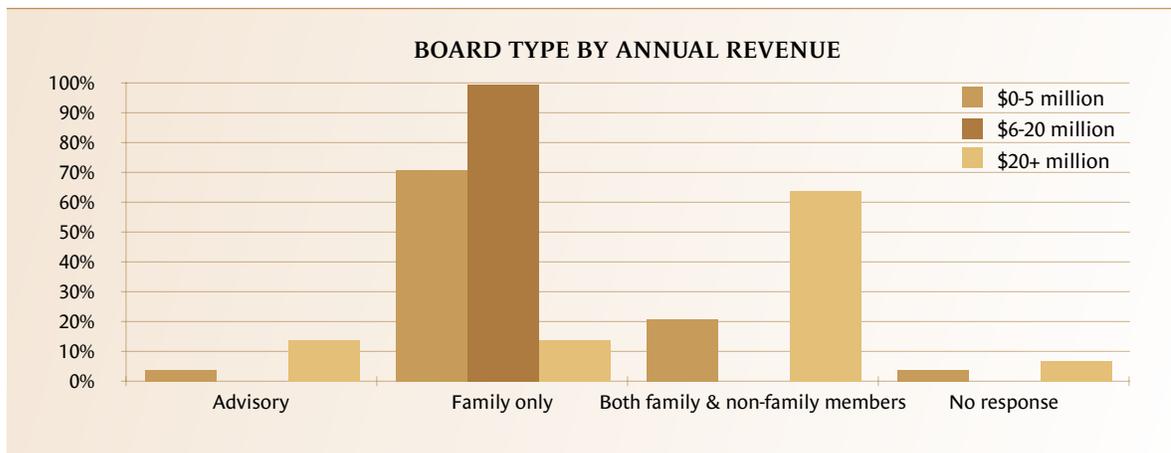
Of those who have a written and up-to-date strategic plan, 59% said their plan is one year old or less, 37% have a plan two to five years old, and just 2% have a plan ten or more years old. Interestingly, businesses in which family members make up less than 10% of the total employee base are more likely than businesses with a higher proportion of family members to have a written and up-to-date strategic plan (67%).

For businesses that have a board that meets on a regular basis, 7% have an advisory board, 55% have a board of family only, and 34% have a board with both family and non-family members, as shown in Figure 7.



**Figure 7.** Types of boards as reported by respondents whose family-owned business has a board that meets on a regular basis

Annual income seems to make a difference in the type of board family businesses have. Those who fall into the \$0–5 million and \$6–20 million categories are most likely to have a board of family only (71% and 100%, respectively). Those who have annual revenue of \$20 million or more are most likely to have a board of both family and non-family members (64%).



**Figure 8.** Type of board reported by respondents, grouped by annual revenue ranges

## **FAMILY BUSINESS PLANNING & PROCEDURES (continued)**

Most respondents feel that their family members are prepared with the right training and skills for tough economic times, with a mean rating of 7.0 on a ten-point scale. About half of respondents anticipate transitioning leadership to a family member (53%), while 31% anticipate leadership transferring to non-family. Respondents who expect leadership to transfer to family are more likely than those who think leadership will transfer to non-family to indicate that transition and succession from one generation to the next and interpersonal challenges among the various owners and family members are challenges.

Businesses that have two or more generations currently involved with the business are more likely than those with just one generation to anticipate transferring leadership to a family member (65% vs. 25%). Additionally, those who have sales based outside of the US are more likely than those who do all their business here to transfer leadership to a family member (62% vs. 48%).

## **CONCLUSIONS**

The *Northwest Family Business Survey* highlights some of the main challenges, issues, and opportunities facing Northwest family business owners:

**Planning for multi-generational transition is crucial to long term success.** While 53% of the businesses surveyed expect leadership to transfer to a family member, only 33% have a written succession plan. Northwest family business owners have taken the time to plan for ownership and estate issues, but have not yet addressed future leadership of the family business. While “ownership” transition is important, “leadership” transition is equally important.

**Northwest family businesses have an opportunity to grow by expanding globally.** Most northwest firms (63%) reported all of their sales in the U.S., while 37% of the respondents reported some portion of their sales outside the U.S. Firms with reported sales outside the U.S. also report greater revenue growth and employee growth. Northwest firms may have an opportunity to grow sales by expanding globally.

**Government policy and regulation is the biggest impediment to growth.** Government policies and regulation, specifically tax policy and employee regulation are significant obstacles to northwest family business growth.

Family business have both unique challenges and opportunities. The Pacific Family Business Institute is committed to providing information, insights and resources to help northwest family businesses grow, thrive and succeed.