

ENTREPRENEURSHIP

Regrouping After the Death of a Top Executive

By STACY COWLEY MARCH 23, 2016

After three years of planning and design work, XTI Aircraft, a start-up in Englewood, Colo., developing an experimental jet, was poised to finally leave the runway. The company had lined up its executive team, received its first patent and begun a crowdfunding campaign for its next stage of development work.

Jeff Pino, XTI's vice chairman and intended chief executive, held a Reddit chat for potential investors and spoke enthusiastically about the venture's potential. "How often do any of us get a chance to be part of something truly revolutionary?" he wrote.

"We have the technical solution, the team, and plan to get this done," he said.

Eight days later, Mr. Pino died in a plane crash.

The vintage fighter plane he was flying at the time was not made by XTI, which is still years away from having a functioning prototype, but his death in February was a cataclysm for the fledgling company. It raised an issue small businesses are rarely prepared to face: What happens when a founder or key executive unexpectedly dies?

“Everyone pays lip service to succession planning, but it takes years, sometimes decades, before companies get around to it,” said Frank P. Nagorney, a lawyer in Cleveland who specializes in succession issues. “Early on, you’re more worried about making payroll next week.”

When a crisis hits, a company faces two challenges, either of which can be its undoing. First, someone has to step in and run day-to-day operations. Then the company must sort out its equity and ownership issues, which often entails selling all or a part of the business.

And some crucial decisions must be made while those who remain are in a state of shock and grief.

George Tang, a co-founder of **Kitchit**, a San Francisco start-up that lets customers book personal chefs, was just 24 when he was fatally struck by a car early in 2014 while walking around the city. Brendan Marshall, the company’s chief executive, had to rapidly navigate a situation unlike any he had studied at Stanford’s business school, where the idea for Kitchit was hatched.

All nonessential operations were suspended as Kitchit brought in a grief counselor and pulled together resources to help its close-knit staff of 12 cope with their loss. Mr. Marshall also faced an urgent problem: Mr. Tang, the company’s chief technology officer, had a deeper technical skill set and knowledge of Kitchit’s code base than anyone else on the team.

“The broader tech community in San Francisco really came through,” Mr. Marshall said. “A whole bunch of engineers who were George’s friends helped us.” Chris Lambert, the technology chief at the ride-sharing company Lyft, was particularly essential in aiding junior programmers and helping Kitchit’s executives make technical decisions, he said.

Work resumed in fits and starts. Some people wanted to dive right back in, to give themselves something to focus on. It took about a month for Kitchit to resume its normal business rhythms, Mr. Marshall said, and when it did, its

trajectory changed. With fewer technical resources, the company had to be ruthlessly disciplined about using them, and some expansion plans were halted.

“It was actually a good exercise, because it forced us to focus on what we had built and on strengthening the core features instead of trying to offer a bunch of new services,” he said.

The ripple effects of a founder’s death can linger for a surprisingly long time. Companies at which a founding chief executive dies are statistically more likely to go out of business than otherwise similar ventures, and they typically experience a sharp sales drop and a moderate decrease in employment, according to research by two economists, Sascha O. Becker and Hans K. Hvide.

The pair used data from Norway, which keeps extensive records on companies and their founders, to study the long-term effects of chief executives’ deaths. The fallout was significantly worse for companies that lost a founder than for those that lost a nonfounder C.E.O., according to the study.

Mr. Becker said the greatest surprise, for him, was that the negative effects continue, and in some areas even intensify, five or more years after the entrepreneur’s death.

“You might think, O.K., the founder dies, someone takes over, the first one or two years there’s a bit of mess until everyone gets used to the new leadership, and then the firm bounces back,” he said. “But these effects are sustained over years and years. There is no bounce-back.”

Most small businesses are family-owned, and those kinds of companies rarely survive an unexpected death unless a relative is trained and ready to take over immediately. “Most of the time, the family ends up selling for way below what it would have been worth if the business owner was there,” Mr. Nagorney said.

Estate issues can force such fire sales. Unless heirs are directly involved in the business, Mr. Nagorney said, they often prefer to have any inherited ownership stake cashed out.

Kitchit was lucky on that front. Mr. Tang died without a will. His parents, who live in Beijing, inherited his equity in the company, and have left it untouched.

“This company is very much part of George’s legacy,” Mr. Marshall said. “His parents believe in that and have some comfort in it.”

Two years on, Kitchit has a staff of 23 and a new technology chief, and Mr. Marshall has become an unofficial Silicon Valley guide to dealing with a founder’s death. Of the three companies he has counseled through similar situations, only one survived.

XTI is determined to keep up the momentum it had before Mr. Pino’s death. Charles B. Johnson, the former president of the Cessna Aircraft Company and an active adviser to XTI, agreed within days to step in and become the company’s interim chief executive.

“There was never any hesitation about whether we would continue,” said David Brody, XTI’s founder and chairman. “We know that’s what Jeff would have wanted, for us to keep going and bring this aircraft to market.”

But doing so will be bittersweet, Mr. Brody acknowledged.

Mr. Pino, 61, a former Army test pilot who spent decades in the commercial aviation industry, was deeply involved in XTI’s development and passionate about the project’s potential. He especially enjoyed working on the company’s crowdfunding campaign, he told The New York Times in an unpublished interview shortly before he died.

“There’s so much young talent in the industry,” he said. “How do I say this nicely — we at XTI have some runway left in our careers, but it’s not the full

runway. It's really fun, at this stage, to be learning new things and to be around people in crowdfunding who are creating so much buzz and excitement."

XTI's website now features a memorial tribute to Mr. Pino, and a pledge to make the company's experimental aircraft, a vertical-takeoff jet with helicopter-like features, a part of his lasting legacy: "As a man with big ideas, and even bigger dreams, Jeff was committed to bringing the TriFan 600 to market, and now, more than ever, so are we."

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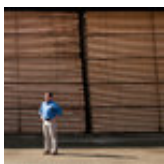
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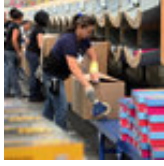


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