

# **TRANSFERRING YOUR BUSINESS TO THE NEXT GENERATION: DEALING WITH THE PEOPLE PROBLEMS**

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What explains the often-observed difficulty of keeping family businesses going beyond two generations? There are the obvious answers of lack of profits, bad luck, the business is too small or too large, and failure to stay current with technology and modern practices. However, there are additional reasons that center on people and the family. These reasons include:

1. Family businesses mix business and family
2. It is difficult for any one business to provide opportunities that fit family member's strengths.
3. Family businesses typically provide limited growth opportunities for family and employees. The vast majority of family businesses have fewer than 25 key year-around people. They tend to have one or two levels of management and only one or two top level managers.
4. Health, marriage, weather, and economic calamities can bring ruin to even the strongest of family businesses.
5. Business continuity requires generation-to-generation transition.
6. No two businesses and no two families are alike.
7. The family must continuously deal with change. The changes are diverse and pervasive: technology, rules and regulations, macro-economic policies and climate, growth and aging of people, and economic opportunities.

Any one of the seven factors challenges the continued success of a family business. Taken together, they demand the best in management creativity to bring about successful transfer of a business to the next generation of family members.

## **Human Relations Guidelines in Transferring a Business**

Successful transfer of a business involves both the current and new owners. Each has critical decisions to make and implement. Neither group of owners can assure success in the transfer by working alone. The current owners create the environment for success in transfer, the two generations work together to make the transfer, and the next generation ultimately determines the success of the business after the transfer. The following guidelines are intended

to help each generation think about its responsibilities and maximize chances of the business transfer being successful.

**\*\* Have a plan.** A plan for transfer of the business starts with accepting the fact that someday the business will have new owners or will not exist. A plan should be based on realistic assessments of the past and present, and reasonable expectations for the future. A plan for transfer must be more than a dream to work a little less and have fewer responsibilities for day-to-day decisions while maintaining control of the business. A need for more leisure time, help with the work, or even delegation of some management is far from a commitment to transfer the business.

**\*\* Start the business transfer "in time".** Planning for transfer and then implementing the plan is a time consuming and tedious task. Even with the full cooperation of all family members, working out the necessary legal and financial plans can be difficult. Under the pressure of time to get the legal and financial matters resolved, the human relations concerns often fail to get the necessary attention. People are assumed to understand what is being done and why. The excuse, "I just didn't have time to talk to you." rarely satisfies the person who wants more information and who feels left out.

**\*\* Prepare family members for their responsibilities in the business.** One approach is to practice on-the-job-training, i.e., make them work. Work may be important but it certainly is not all that is needed to be prepared for ownership of the business. Some parents protect future owners from the realities of the business. Letting them believe that all is rosy with the business almost certainly leads to their having unrealistic business and personal expectations for themselves and the business. Parenting plays an important part in getting the next generation ready for ownership. Parents have influence on their children's attitudes toward self-employment, continuation of the business, riskiness of investments, and the importance of education and experience in other businesses before joining the home business.

**\*\* Treat people fairly not necessarily equally.** How can we help one or two children take over the business while being fair to other children? is a perplexing question. Equal treatment is easy when only assets are being transferred to the next generation. Equal treatment may be virtually impossible when a business is being transferred. In spite of the difficulty, judgement of what is fair rests with the current owners of the business. Careful explanation to each person of what is being done and why is surely useful. It does not guarantee that all parties will be happy with the decisions.

**\*\* Develop and select managers for the next generation of the business.** Ownership in the next generation is easier than management in the next generation. The transfer process should anticipate management voids that will be created by people moving up, retiring or leaving the business for other reasons. Development of managers is a long-term investment in people. When businesses fail to develop people, success in the next generation absolutely requires managers to be hired from outside

**\*\* Strive to understand the culture of the business.** What is valued? What are the core beliefs? Each business has a culture. The culture of the Smith business matters to the Smiths

and the Jones' culture to the Jones. Differences in culture among businesses and families are as important as their differences in enterprises, acres and breeds of cattle. Agreements and disagreements within the business may be over values and beliefs as much or more as over business opportunities, size, promotions, and profits.

**\*\* Through regular and detailed communication, make the family part of what is happening.** Spouses have a key role. They need to be involved and informed. They need information to develop an understanding of how their own futures are being affected by the business transfer. The amount and kinds of information needed depends on the extent of their involvement in the current and future business.

**\*\* Put the transfer plans and agreements in writing.** Oral agreements may be easier in the short-run but they often lead to confusion and disagreement. Putting plans and agreements in writing forces solution of disputes and misunderstandings. The details of a lease, a partnership agreement, a job description, or a plan for transfer cannot be overlooked when all parties must read and sign a written document.

**\*\* Take advantage of a testing stage.** Part ownership of a business can be a high cost and risky test of the relationship among current and future owners. Instead, a future owner can come into the business as an employee. An employee learns the inner workings of the business while earning greater responsibility. The testing period is two-way. The future owner is testing and being tested. The goal is preparation for an ownership and management role. However, the testing stage can cause the employee to leave rather than become an owner of the business. The possibility of leaving rather than joining the business is one of the most important arguments in favor of a testing period.

**\*\* Pay careful attention to the daughters-in-law and sons-in-law.** They may bring valuable experience, management capability, humor, perspective, mediation, money and dedication to the business. They may also bring problems, confusion and conflict. Regardless, they are important to the transfer of a business. Their futures, their children's futures, their families, their roles and image in the community are all affected by the business. In short, the business matters to them and they matter to the business.

**\*\* Deal with differences of opinion and conflict.** Differences must be aired and discussed openly. The accumulation of unresolved small differences can be as devastating as a single large issue. No two people in a business are alike. From their individuality come differences in opinion and different views about what is the "right" solution to a problem or conflict. Often, there is more than one good answer to a problem. One person insisting that his or her way is the only way more likely magnifies than solves a problem. Outside parties serving as mediators may be the only feasible alternative if differences can not be resolved within the business.

**\*\* Face the tough trade-offs.** Transferring a business changes the business and affects the lives and welfare of people involved. Choices are better made than ignored. It is the current owners' responsibility to make clear the goals to be accomplished through transfer and the preferred means for transfer.

**\*\* Involve outsiders.** An outside board of advisors can bring fresh ideas and technical information, serve as a sounding board, evaluate progress and plans, suggest which parts of the business most need improvement, motivate managers to address problems rather than procrastinate about them, and mediate differences and conflicts within the management team and among the owners.

**\*\* Accompany the transfer with a business plan.** The current owners may not be up-to-date on technology, competition, changes in legal and government institutions and influences of the macro and local economy on the business. If the next generation of owners can not develop a viable business plan, this deficiency in management needs to be addressed immediately rather than left for later consideration. Talking about vague ideas for the future is not enough.

**\*\* Have a staffing plan with written job descriptions and an organizational chart.** Who is the boss? Who makes the critical decisions? Who hires? Who evaluates? Who relieves tensions? Who steps forward in crises? Requiring a written job description with at least annual updates for each position in the business clarifies the organizational structure and improves communication. Written job descriptions also clarify people's roles during the transition period to new ownership. An organization chart helps all involved in the business understand who is responsible for what.

**\*\* Look for opportunities in the business that fit the strengths of the new owners.** The new owners may or may not have all the necessary skills to make their business a success. Admitting that the next generation of owners lacks some skills is a major step in putting together a new management team. Hiring managers from outside the business may be essential.