



# Preparing the Next Generation to Take Over the Family Business

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# Introduction

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- A **leadership** challenge
- A **cooperation** challenge
- A **“letting go”** challenge
- A **“stepping up”** challenge



# Preparing the next generation

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- Leadership and trust are the foundation of successful succession
- Huge decisions that have family, financial, psychological and survival effects
- Not everyone can get all they want
- Starting too late and doing too little are common
- Operational, legal and tax issues are often less of a bottleneck than family relations



# Outline

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1. Understanding the roots of the family business succession challenge
2. Guidelines for the leaders of management succession
3. Guidelines for the next generation
4. Communication and relationships



# Part I.

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Understanding the eight most important  
roots of the family  
business succession challenge



# 1. Family and business overlap

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- Family and business boundaries are blurred
- Goals vary from one generation to the next
- Business problems can cause marital problems and vice versa
- Family and business compete for the same dollars

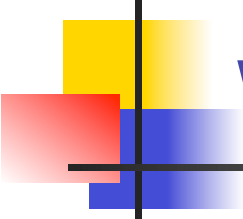


## 2. Each family member in the business has three roles

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1. The family role
2. The business role
3. The personal role

Confusion of roles complicates communication and affects decisions!



## 3. Family members join the business with important questions unanswered

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1. Do the long-range goals and plans for the business have a place for me?
2. Does the rest of the family want me in the business?
3. What have other family members already been promised?
4. What will my responsibilities be and how will I be held accountable?
5. How will my future pay be determined?
6. What will be the expectations and opportunities for my spouse?





## 4. Opportunities don't match strengths and interests

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- Children often raised to like doing and not doing the same things as their parents and siblings
- Preferred jobs may already be taken by other family members
- Parents may have no interest in retirement for many years or ever



## 5. Words and acts cross the line from healthy disagreements to family fights

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- **The Good News:** Healthy disagreements often lead to better decisions
- **The Bad News:** Harsh words, damaging acts and no discussion of differences of opinion often lead to damaging decisions



## 6. Some family members have troubling personal characteristics

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- |             |               |                |
|-------------|---------------|----------------|
| ■ Arrogant  | <i>versus</i> | Humble         |
| ■ Unlikable | <i>versus</i> | Likeable       |
| ■ Weak      | <i>versus</i> | Self-confident |
| ■ Uncaring  | <i>versus</i> | Caring         |
| ■ Sour      | <i>versus</i> | Humorous       |
| ■ Unkind    | <i>versus</i> | Kind           |



## 7. Mission of the business is unclear

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- Statement of a businesses' mission answers the question:
  - Why are we in business?
- Mission statement is most helpful if:
  1. Widely discussed in the family
  2. Agreed to by all key persons in the business
  3. Put in writing
- Lack of a unifying mission for the business causes family members to work against each other to "Get what I want" rather than what is best for business



## 8. The family's culture does not fit its goals

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### Family Culture:

- Shared values and norms of behavior
- No two families have the same culture
- Learned as people grow up or join a family
- Affects how members feel, act and react
- Affects relationships, trust and commitment
- May not have evolved to fit with changing goals



# An example of the importance of family culture

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## Family A

Disagreements are destructive, personal and threatening to the business' survival. Anger is deep and obvious. Communication is muddled with unclear messages. Winning a fight is much more important than doing what is best for the family and business. Hard feelings and bitterness last long after a fight is supposedly over.

## Family B

Disagreements are spirited, open and honest. They result from differences of opinion not from anger or disrespect of others. Communication is open and clear. Once a disagreement has been aired and a decision made, the family quickly closes ranks and supports the decision with no lasting hard feelings.



# Summary of the eight roots of family conflicts

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1. Family and business overlap
2. Three hats
3. Family members join the business without well thought out plans
4. Opportunities don't match strengths and interests
5. Words and acts cross the line from healthy disagreements to family fights
6. Some family members have personal characteristics that don't fit a family business environment
7. Mission of the business is unclear
8. A family's culture does not fit its goals



## Part 2

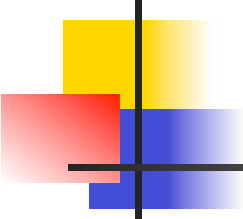
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Guidelines for the older generation –  
the Leaders of Management Succession

Or

(What the Next Generation Should Expect of  
this Generation's Leaders)

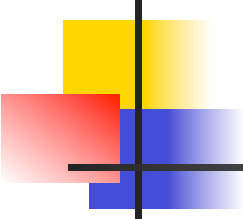




# Guidelines for the leaders of management succession

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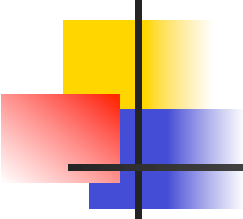
1. Accept enthusiastically your responsibility for preparing the next generation to take over the farm business
2. Have a written mission statement that answers, “Why are we in business?”
3. Require a testing period for anyone entering the business
4. Provide written job descriptions
5. Train people to do their jobs



# Guidelines for the leaders of management succession (Continued)

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6. Delegate responsibility and authority; then follow up with feedback on performance
7. Operate a profitable business
8. Develop business/family harmony
9. Provide overall leadership and coaching for the business



# Guidelines for the leaders of management succession (Continued)

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10. Develop family pride in the business
11. Nurture each family member in the business
12. Build trust
13. Celebrate successes
14. Catch people doing things **right** and say thank you



# Guidelines for the Top Manager (Continued)

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15. Help determine the future leaders and structure of the business
16. Prepare people for their future responsibilities
17. Communicate clearly and often
18. Have fun

*Most importantly, say and signal clearly and often that you are starting to "let go"*



# Part 3

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## Guidelines for the Next Generation

Or

(What the Leaders Should Expect from  
the Next Generation)



# Guidelines for the next generation

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1. Demonstrate continuously your self-motivation
2. Seek responsibility
3. Become competent in handling your responsibilities
4. Show your desire to learn
5. Admit your mistakes



# Guidelines for next generation (Continued)

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6. Be consistent in your mood, humor, temperament and cheerfulness
7. Communicate your needs, concerns, and ideas to the older generation
8. Listen to the older generation's point of view
9. "Read" signals sent to you



# Guidelines for next generation

## (Continued)

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10. Commit to the farm's mission and goals
11. Establish a home away from your parents
12. Prepare for the challenges with the "cousin generation"
13. Build good relations with non-family employees
14. Prepare for your next position in the business





## Part 4

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# Communication and Relationships



# Family business communication

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- Communication provides the foundation for good relationships
- Communication skills can be:
  - Learned
  - Practiced
  - Evaluated
  - Improved



# The reality

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1. Communication in family businesses is often a weakness
2. Communication more family-like than business-like
  - a) Informal
  - b) Spontaneous and unplanned
  - c) Treated as a natural ability rather than a skill to be learned, practiced evaluated and improved
3. Communication problems tend to be blamed on other family members



# Key communication guidelines

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1. Accept that communication problems rarely solve themselves
2. Make improved communication everyone's responsibility
3. Separate family places from business places (kitchen versus business office)
4. Remove barriers to communication



# More communication guidelines

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4. Seek separation of family time from personal and business time
5. Stress **written** messages in the business and **oral** messages in the family
6. Make family business meetings effective



# The importance of family business meetings

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- Practically all successful companies and organizations have business meetings
- No reason to believe that business meetings are unimportant for family businesses
- Offer great potential for improving family communication
- Help separate business issues from family relations



# Important guidelines for effective family business meetings

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1. Chose a person to run the meetings who is **fair, consistent, even tempered, responsible** and **patient**
2. Meet in a neutral place
3. Distribute an agenda in advance
4. Begin and end meetings on time
5. Avoid socializing during the meetings
6. Expect recorder/secretary to distribute minutes soon after meeting

**See Appendix for more detailed guidelines**



# Take home message

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**Choices made** will determine the success of preparing the next generation to take over the farm business





How are we doing?

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**Ask, don't guess!**



# The final take home message

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Your success in management succession will depend on:

1. Leadership
2. Trust
3. Communication
4. Letting go
5. Choices you make



# Contact information

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# Appendix

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## Conducting Effective Family Business Meetings



# The basics for family meetings

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Work out a general agreement to:

1. Avoid unnecessary meetings
2. Make good use of meeting time
3. Have a regular meeting schedule
4. Cancel only when agenda does not warrant meeting or for emergencies
5. Expect attendance of the key people at nearly all meetings



# Guideline 1

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Decide who are the “right” people to attend each family business meeting

1. How many generations?
2. In-laws?
3. Family members not in the business?
4. Young family members not yet in the business?
5. Family members who are employees with no management responsibilities?



## Guideline 2

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Chose a person to run the meetings who knows how or is willing to learn

1. Need not be Mom or Dad
2. Delegate authority and responsibility to the person running the meetings
3. Demand that the person is **fair, consistent, even tempered, responsible** and **patient**
4. Be willing to go outside family for the person if necessary



## Guideline 3

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Distribute an agenda in advance

- Include enough detail so that people know how to prepare for the meeting
- Use consistent format for agenda
- Expect everyone to come prepared





## Guideline 4

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Meet in a neutral place

1. A family member's home is rarely a neutral place
2. Have a consistent meeting place
3. Possibilities: business office, nearby restaurant, church, community center



# Guideline 5

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Begin and end meetings on time

1. Announce beginning and ending times well in advance
2. Start without habitual latecomers
3. Expect everyone to stay until announced ending time
4. Adjust agenda to maximum time available but meet no longer than necessary



## Guideline 6

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### Stick to the agenda

1. Avoid introduction of topics not on the agenda
2. Identify topics for future meetings as you go



## Guideline 7

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Avoid socializing during the meeting

1. Socialize before or after the meeting
2. Take breaks as necessary
3. Have refreshments and maybe food available before and during the meeting



## Guideline 8

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Expect recorder/secretary to distribute minutes soon after meeting

1. Use consistent format for minutes
2. Record actions taken but not all the discussion that led to the actions
3. Include next steps and timeline agreed to
4. Include to whom assignments were made for follow up



## Guideline 9

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Minimize reconsideration of actions taken at last meeting

1. Reconsider only when there is important new information
2. Disallow members in the minority to wear down the rest of the family to get what they want



## Guideline 10

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Evaluate the effectiveness of your meetings at least once each year

1. Be willing to admit something is not working
2. Be willing to experiment