

# Prepare the next generation for the business transition

■ Successfully transitioning the family business means the next generation must be prepared.

by *Dave Natzke*

**Craig Aronoff, founder and principal** with Family Business Consulting Group Inc., Marietta, Ga., counsels many families making business transitions. Featured at a Professional Dairy Producers of Wisconsin (PDPW) seminar, "Generational Transitions: Family, Finances and Leadership," he compares a business transition to a relay race.

"The trick, in addition to not dropping the baton, is to make the exchange when both runners are at full speed," he explained. "The race is not won through speed. It is won in the split second during the handoff of the baton.

"Unfortunately, in family businesses, the older generation will pass the baton when it is good and ready," he continued. "They've probably been pretty fast for a long time, but on the last lap they're slowing down, and they wait until they pass the baton until their last breath. Meanwhile, the younger person, who's supposed to receive the baton is waiting, and waiting, and waiting. The older generation can't be crawling, and the younger generation has to be ready, at their full speed. Hopefully, the transition is a nonevent, so that when it happens, people say 'of course, what else would have happened?' When it works right, the ideal transition is step by step, as the older generation steps out and the next generation steps in."

## The 'letting go' checklist

In preparation for the transition to the next generation, Aronoff said the older generation must ask itself several questions:

- Am I committed to family succession? Is it a dream I deeply feel?
- Will my spouse and I be financially secure after retirement?
- Have I chosen a successor and set a firm date to retire?
- Do you believe there is life after retirement?
- Does a new challenge or interest await me after retirement?
- Am I able to delegate decisions and author-

ity?

- Can I let others take business risks?
- Do I trust key people with company financial information?

Transition and retirement planning can be intimidating, but need not be "planning for death," said Kansas State University agricultural economist Rodney Jones.

## Next question: Who's next?

A big question concerns identifying who's the next appropriate owner.

"Ownership itself is a tremendous variable," Aronoff said. "Some people make better owners than others. Businesses should be owned by the people most qualified to own them. If you are forcing the next generation into a business they don't want, it's a terrible idea. If you're making family members work together who don't want to work together, it can be terribly disruptive. It's not always a bad alternative to take a business and pass it along to someone else, not your children. Sometimes it's better to sell the business than allow it to crumble for lack of the right kind of leadership."

Perhaps the stickiest question arises when multiple family members of the same generation seek ownership. Depending on relationships, if the objective is to keep the family together, it might be best to sell the business to someone outside the family. If the objective is to keep the business together, ownership should go to the most qualified. Failure to resolve these issues plants the seed for both family and business failures.

In dealing with the relationship between family and business, start early, when the next generation is in high school, if possible. That way they can understand the consequences of their decisions regarding education and job skills.

There also has to be a discussion about rights and responsibilities. When family members start to talk about rights instead of responsibilities, it creates problems, Aronoff said.



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## FYI

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■ For additional articles from PDPW's seminar, "Generational Transitions: Family, Finances and Leadership," read "It starts with the family" in the April 2006 issue of *Midwest DairyBusiness*.

### Strategic questions

There are several strategic questions the next generation must answer if they are considering taking over the business:

- Are we committed to continuing our family business?
- What are our strategic strengths and weaknesses, and what opportunities and threats confront us?
- Do our family values recommend or preclude any strategic directions?
- What do family business history and traditions tell us about strategic change and how it was handled in the past?
- Are we satisfied with our current strategy and growth rate?
- How does availability of capital constrain our strategic choices?
- What is our orientation toward risk?

### Becoming a coach

Aronoff said preparing the next generation to take ownership and management takes guidance. The older generation should help organize and focus on process development and assure that adequate resources are available, but avoid being overly controlling or critical. They should also resist the urge to step in and “fix” things. He lists several coaching techniques for parents:

1) When you see a problem, don't rush in to fix it. Wait for a private time

## Common differences between older generation (parents) and younger generation (offspring) in a business transition

Item	Parent	Offspring
Financial outlook	Conservative	Aggressive
Risk	Adverse, seeks security	Risk taking
Control	Controlling, fear of losing control	Wanting control
Processes	Doing things in familiar, comfortable ways	Growth oriented Change oriented Uncomfortable with business as usual
Management style	Managing past	Managing future

and talk to the successor about it.

2) Set regular meetings to discuss progress and problems.

3) When the successor asks a question or shares a thought, respond only to the subject raised. Don't dredge up other issues.

4) Keep in mind that teachers and great leaders are known more by the success of their followers than by what they do themselves.

### Empathy required

To avoid conflict, a successful transition also takes empathy, an understanding that each generation comes with a different outlook and goals (see box above). Neither side is wrong; it's just their perspective, Aronoff said.

### Team management, structure

Under a transition to the next gen-

eration, an organizational plan is critical. It should establish:

- a clear chain of command
- clear areas of responsibility
- market-based compensation
- performance evaluations

Clear responsibilities and authority require clear decision-making rules based on common vision, goals and values. The team must be working together.

Aronoff identified several steps to help ensure “peace” and success:

- Develop a mission statement.
- Give top priority to the business's best interests.
- Set up separate areas of responsibility.
- Spend time away from each other.
- Respect each other's areas of special interest.
- Hold annual airing-out sessions.
- Keep attitudes toward each other healthy and constructive.
- Agree on a system of compensation and perks.
- Meet informally just to talk.
- Develop a code or pledge of conduct with respect to each other.

“The succession process will be most successful if a ‘team approach’ atmosphere is established, supported by good communication, with continuous skill development,” Jones said. “The process can be relatively short, or it can take several years and can sometimes lead to frustrations.

### 3-part series available

For reprints of the three-part *Midwest DairyBusiness* series on generational transitions, log on to [www.dairybusiness.com/midwest](http://www.dairybusiness.com/midwest) and click on “Bonus Features”.

**Part 1:** It starts with the family  
**Part 2:** Prepare your business for the next generation

**Part 3:** Prepare the next generation for the business transition

## 7 steps of management/ownership transition

Typically, preparing the next generation for overall business management and ownership can take 5-15 years, with several complex steps. Craig Aronoff identifies seven stages of successor development, highlighting major components the younger generation should grasp along the way:

### 1) Attitude preparation (ages 0-25)

- Work
- Contribution
- Perspective
- Responsibility

### 2) Entry (ages 20-30)

- Training
- Orientation
- Relationships
- Expectations

### 3) Business development (ages 25-35)

- On-the-job:
  - Skills and abilities
  - Teamwork and decision making
  - Business culture, history, strategy and philosophy

### 4) Leadership development (ages 30-40)

- Recognizing and understanding constituencies
- Building consensus
- Articulating continued vision

### 5) Selection

- Leadership structure
- Specific succession

### 6) Transition

- Passing the baton
- A new management team
- Development of new strategy
- Financial transiton

### 7) Next round

- Plan a transition of their own