PIFF Newsletter

Summer Edition

PIFF | Purdue Initiative for Family Firms

August 2017

Included in this Issue:

Welcome to PIFF!

The Purdue Initiative for Family Firms (PIFF) is an initiative in Purdue's College of Agriculture. PIFF is an integrated research, outreach, and teaching program. It offers educational programs that address the major competencies needed for effective family business ownership and management. The goal of the initiative is to prepare family business stakeholders—strategically, financially, and emotionally—for the significant and sometimes unpredictable transitions and decisions that must be made, which determine the success and continuity of the family business.

PIFF provides multi-generational family businesses with research-based business management resources aimed at improving personal leadership performance and driving operational growth. Our ambition is to prepare family business owners, managers, and stakeholders (including non-owner spouses and future owners) to be effective stewards of their family enterprises.

PIFF publishes a quarterly newsletter that will house an article from each part of the pie, found on our website – purdue.ag/piff. The four quarters of the pie include topics of: estate and personal financial planning, strategic business planning, maintaining family bonds, and leadership and succession planning. Each section houses articles, guides, and assessments of related topics which can be viewed online or downloaded. Also found on the website is a *Question of the Month*, PIFF Research, an option to subscribe to our quarterly newsletter, and upcoming events.

Transferring Business Management

Michael Langemeier

Strategic Business Planning

Transferring business management between generations is one of the most critical steps in transitioning the business from an older generation to a younger generation. Having said that, in numerous instances, this step is given little thought. Transitioning management cannot be done overnight, and often requires a trial and error approach before it can be determined how each generation fits into the multiple generation business. Some of keys to successful transition are outlined below.

First of all, it is important that the older and younger generations can work together and that the business is large enough to support two generations. This means that the older generation is ready to bring in a new generation and begin turning over management, control, ownership, and income; and that the younger generation is committed.

For a multiple generation business to be successful, the parties need to agree on the future direction of the business. In other words, the parties involved need to share a common vision of their future together in farming. One of the ways to come up with this common vision is to explore the goals and objectives of the relevant parties, which would include the older generation, the younger generation that is planning to return to the farm, and the off-farm heirs. In addition to having an impact on management transfer, goals and objectives impact how business income should be divided between the parties and how property will be divided between the younger generations coming back to the farm and off-farm heirs.

Even before the younger generation returns to the farm, it is imperative that both the younger and the older generations think about what skills the younger generation is bringing to the operation. We often want to hire individuals that are like us. In a small business, hiring someone that is like you or bringing in a family member that has a similar skill set is problematic. For example, if both parties are not particularly fond of keeping and analyzing records and financial statements, this is a problem. In today's world, to be successful, someone in the business will need to be interested in these tasks. Other areas that are sometimes overlooked are procurement and marketing skills, and personnel management skills. The issue pertaining to the skill sets of the respective parties is important enough that many farms conduct a skill assessment of current and returning family member's skills, and use this information to choose areas where additional training and professional development are needed.

Management tasks cannot be transferred overnight. Typically, the younger generation is given some responsibility relatively soon after joining the operation. For example, they may be assigned responsibility for a small area or part of the decision making process of an enterprise or function. I have found the following questions helpful when determining where to start the management transfer process. First, what specific area(s) is the new generation passionate about? Second, does this passion for specific areas correspond with areas in which they are skilled or have experience?

After concluding that both generations are committed to adding someone to the operation and determining that there will be sufficient income for both parties; it is imperative to develop a transition plan involving management transfer. This plan needs to address goals and objectives of both parties, the initial management transfer steps, decision-making authority, and division of management responsibility.

Retirement in the Family Business

Renee Wiatt

Estate & Personal Financial Planning

Planning for and funding retirement is an obstacle faced by many people, but retirement planning can become especially complicated when you own your own business, work for a family business, or are self-employed. Copreneurs (those who own a business with his or her spouse) have especially complicated situations, as both spouses' financial wellbeing is tied to the business. Family businesses have many considerations related to retirement including (but not limited to): who will take over the management of the business, whether or not ownership will be relinquished when retirement takes place, trust in a successor, whether or not a retirement plan has been funded (or if retirement financing is tied to the continued prosperity of the family business), selling the business in order to fund retirement, whether retirement will take place in phases or all at once, and partial or full retirement.

Sherwood (2007) urges business owners to consider partial retirement, with the owner retaining management decisions and delegating other tasks to the next generation. This would allow the owner to maintain control, while freeing up time to travel and enjoy hobbies. Kim and DeVaney (2003) found that partial retirement is in the forefront of family business owners' minds, with 40% of their sample confirming that they expect to partially retire (instead of fully retiring). While partial retirement may not be ideal for all, it could be a great compromise for some family business owners.

Retirement decisions in the family business can be more emotionally trying than retirement decisions in industry. The integration of the family and the business into one's everyday life makes exit emotional for many owners. Otherwise straightforward business decision can become tricky when that business is a family business. The Family Business Succession Survey (2012) found that 55% of owners had thought about succession planning because of their want to retire. Further, thirty-seven percent of owners responded favorably to, "I plan to transfer the family business to a family successor even if it puts my owner personal wealth and livelihood at increased risk". We measured annual mean business incomes related to each response and found that when owners responded "disagree" to the aforementioned question had roughly $75,000 lower mean annual business income than owners who responded "agree". Mean annual business income for owners who disagreed was roughly $306,000, was $381,000 for those who agreed, and was $254,000 for those owners who were unsure.

Incomes and Transfer Decisions

I plan to transfer the family business to a family successor even if it puts my owner personal wealth and livelihood at increased risk.	Annual Mean Business Income
Disagree	$306,268
Unsure	$254,412
Agree	$381,426

Careful considerations to the owner's involvement before, during, and after retirement are a must for a smooth retirement process. Added benefits to careful [succession] planning would be minimizing emotional pain, minimizing the tax burden, maximizing the wellbeing of retiring owner(s), and adhering to the owner's wishes when the business transfers from one generation to the next (Battersby, 2012). Clearly, retirement is not easy, especially in a family business, but retirement can be achieved.

Got Conflict?

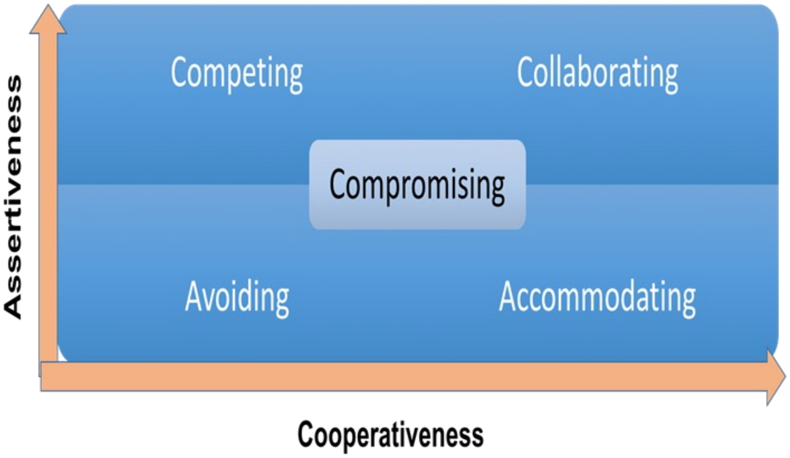
Maria I. Marshall

Maintaining Family Bonds

We usually do not think about the high cost of conflict. According to CPP's 2008 Human Capital Report, 85% of workers experience conflict directly or indirectly at work and a quarter of employees have either been sick or called in sick due to conflict. In fact, they found the almost three hours of productivity per week are lost due to conflict.

Most of us do not think about our conflict style. I would venture to guess that we did not even know that there *are* different conflict styles. When we do think about conflict styles, we might think about it in terms of those who thrive on it and those that avoid it like the plague. However, conflict is not a bad thing; actually, we usually need some level of conflict to make changes and grow.

In any family business or organization, we can experience conflict at different levels. We can experience conflict at the individual, group, or organizational level and also between them. The most common reasons for conflict are lack of shared goals or values, different personalities or styles, or resource scarcity. The "easiest" of these to resolve is conflict stemming from individuals having different conflict styles.



So what are the different conflict styles? There seems to be some consensus by experts that there are five conflict styles used to respond to conflict. Kraybill's Conflict Style Inventory names them as directing, cooperating, avoiding, harmonizing, and compromising (www.riverhouseepress.com). The Thomas-Kilmann Conflict Mode Instrument (TKI) (www.cpp.com) names them as competing, collaborating, avoiding, accommodating, and compromising. These assessments use different words but are quite similar. We will continue with the TKI for the rest of this article. Before we go on to define the styles, we should make very clear that there is no wrong style. Every conflict style has its place and time. In reality, you should try to master all five styles, particularly if you are in a leadership position. What is important is that you understand which style you are most comfortable with or seem to resort to the most.

The TKI uses an assertiveness and cooperativeness continuum. For example, if you are very assertive and uncooperative, your conflict style is competing. When you use a competing style, you are trying to win and are pursuing your own agenda at the other person's expense. You are using a style where "might makes right".

If you are assertive and cooperative then you are using the collaborating style. We would generally use this style when we want to incorporate the concerns of a group into a consensual decision. A user of this style is looking for a win-win solution. When you believe that "two heads are better than one" then you are using the collaborating conflict style.

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("Got Conflict?" continued from page 4)

If you are moderate in both assertiveness and cooperativeness, your conflict style is compromising. In this response to conflict you are usually trying to find a fast and convenient solution that somewhat satisfies both parties. A user of this style would "split the difference".

You are using an accommodating style of conflict if you are unassertive and cooperative. This style is the complete opposite of competing. If you tend to neglect your own needs to satisfy the needs of others, then you are accommodating. You may find yourself using this style if you knew that you were wrong or when the issue is more important to the other person than it is to you. We would sometimes refer to this style as "killing your enemies with kindness".

If you are unassertive and uncooperative, then you are using the avoiding style of conflict. You are using this style if you sidestep an issue or walk away from an intimidating situation. A good use of this style is when you need to let people cool down before you can continue to tackle an issue. If you "leave well enough alone" you are using this style.

As we noted earlier, everyone is capable of using all five conflict styles and are all useful in a work-family dynamic. We tend as individuals to rely on some styles more than others based on our personality or practice. As a family business, you may want to consider taking a conflict assessment to enhance communication among family members *and* employees.

Gender and Business Owner Satisfaction

Wenxuan Li & Maria I. Marshall

Leadership & Succession Planning

Our research targets role satisfaction of family business owners. Role satisfaction of owners is a key measurement of success in family businesses (Copper and Artz, 1999). Evaluation of the level of satisfaction allows business owners to better decide if they should invest more time and money into the business. We conducted this research to examine the relationship between gender and owner role satisfaction in family businesses, specifically, farm family businesses. Based on the previous literature on related topics, we learn that there are several determinants of satisfaction for business owners. Gender, tension, demographic characteristics, and boundary issues are all included as major determinants of role satisfaction. Tension among family members comes from various sources and it could affect role satisfaction. Unclear or undefined boundaries between family and business resources could lead to lower satisfaction.

The theoretical framework for this research is adopted from the Bivalent Attributes Model (Tagiuri and Davis, 1996). This model is implemented to understand the dynamics of family businesses and how both the family and business systems interact with individual's role satisfaction. The data for this research are from the 2012 Intergenerational Farm and Non-Farm Family Business Survey, which was a 30-minute telephone survey of 736 rural small- and medium-sized family businesses. The dependent variable, role satisfaction, is measured on a scale from 1 to 3, with 1 being unsatisfied and 3 being extremely satisfied. The majority of male and female owners feel extremely satisfied with their role in the business; only 19.3% of male owners and 17.4% of female owners feel unsatisfied.

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Our study employed an ordered probit model with marginal effects to analyze the effect of gender on role satisfaction. Also included as independent variables were business characteristics, business owner characteristics, financial characteristics, and satisfaction- and tension-related characteristics. The research results show that there is no difference in role satisfaction between men and women. The probability of feeling satisfied with their role is 57% for male owners and 58% for female owners.

Even though level of role satisfaction does not differ with gender, we found that the factors that drive role satisfaction are different for male and female business owners. Male and female business owners focus on different aspects of their business to achieve role satisfaction. Other variables in farming family business played a role in the level of satisfaction owners have. For instance, business owners are influenced by severity of tension from various sources, such as tension from the workload distribution or tension from competing resources for family and for business. Whether the business has a business development plan or has a clear boundary between the family and the business also affect role satisfaction for family business owners.

References

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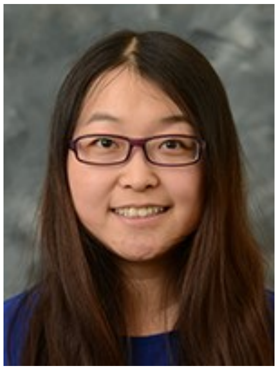

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