November 2021

Purdue Institute for Family Business

Quarterly Newsletter

Fall 2021 : A Retrospective Analysis of PIFB Questions of the Month

A note from PIFB (Maria Marshall & Renee Wiatt): *Now that PIFB has more than 4 solid years of data from questions of the month, we thought that it was time to highlight some past questions that we asked family businesses. We have chosen one question from each of our four specialty areas: Maintaining Family Bonds, Strategic Business Planning, Estate and Personal Financial Planning, and Leadership and Succession Planning. We also highlighted some special COVID-19 questions that we asked our family businesses during the recent pandemic. We hope that you enjoy this retrospective analysis of PIFB questions of the month. You can view individual results from all of our questions of the month here.*

Articles in this Newsletter:

Maintaining Family Bonds: Different Approaches to Conflict

Maria Marshall and Renee Wiatt

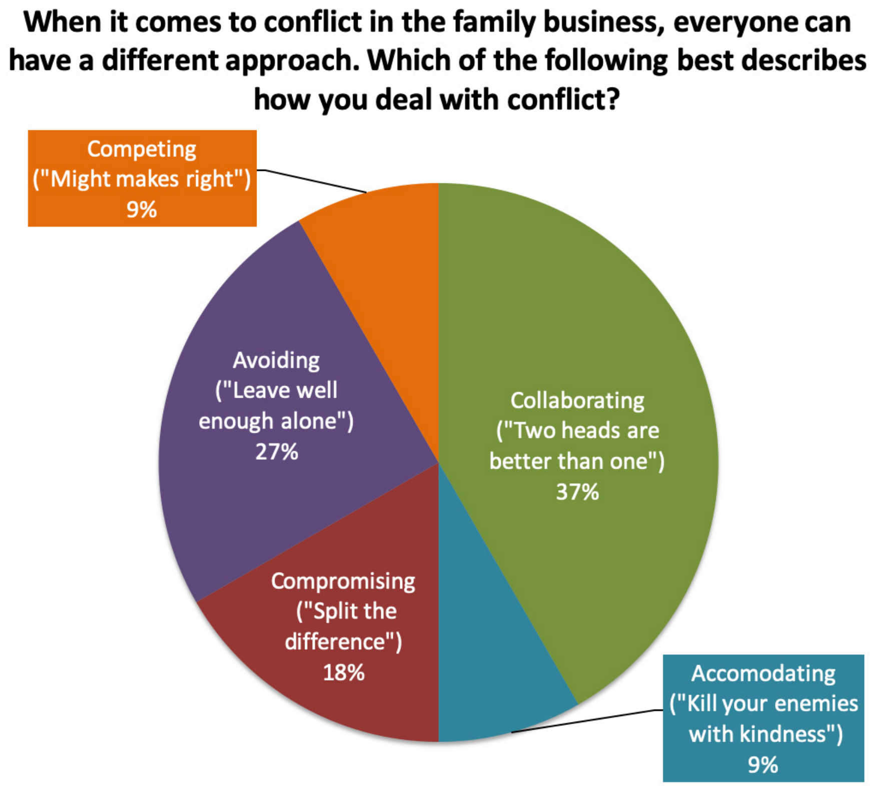
In July of 2017, we asked our family businesses about how they approach conflict in their family business. We usually do not think about the high cost of conflict. According to the Human Capital Report (CPP, 2008), 85% of workers experience conflict directly or indirectly at work and a quarter of employees have either been sick or called in sick due to conflict. In fact, they found that 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? 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.

As you can see from our graph (to the right), the collaborating style was the clear front runner, followed by avoiding and compromising. Collaborating is a great conflict style to use for family businesses. Here is why: 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.



Estate and Personal Financial Planning: Sharing Info on Compensation, Benefits, Estate Plans, and Gifts

Renee Wiatt

When asked about what information their family and business share, only 50% of our business respondents have families that share information about compensation/benefits as well as estate planning information. Communicating early and often can take time, but sharing information creates stronger families and stronger businesses. Many businesses have failed to withstand transfer to the next generation due to lack of communication.

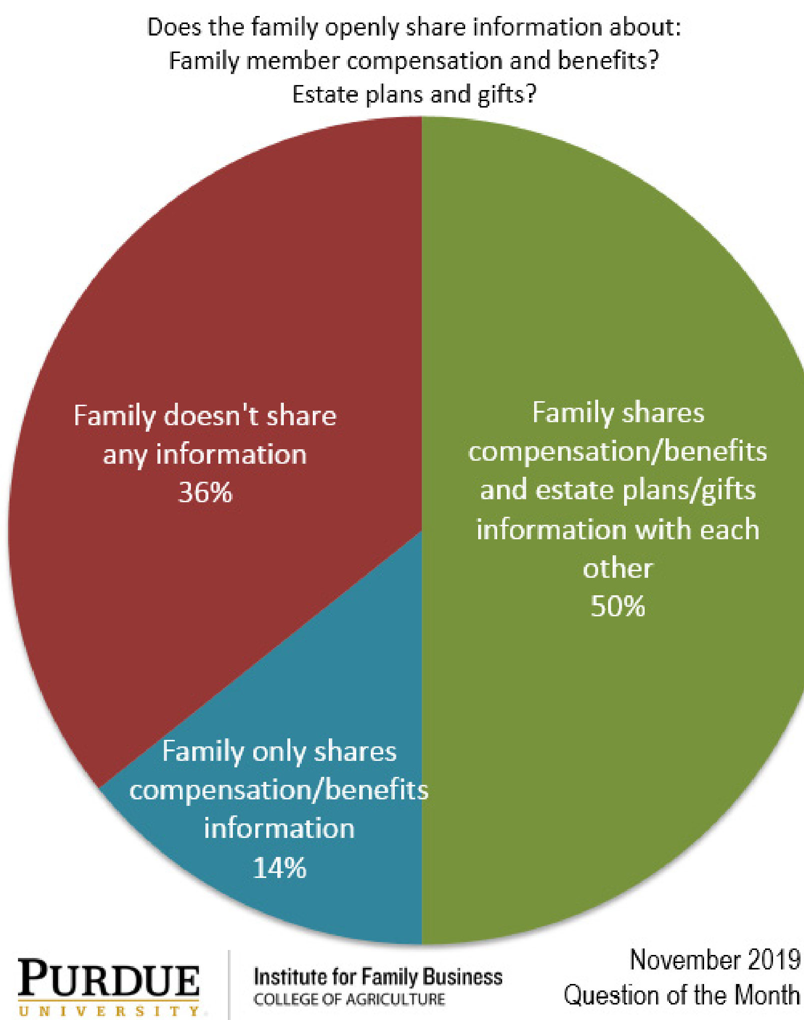
Furthermore, succession planning starts with a discussion. A lawyer will gladly facilitate that discussion and charge an hourly fee or you can start the discussion as a family and a business. There is an infinite amount of questions that can help form a succession plan for your business. There are questions that need to be asked and answered by both the incumbent generation (exiting generation) along with the successor generation (entering generation). Questions such as:

- Are there individuals in the family (or not in the family) interested in joining the operation? If so, who?
- What can those individuals bring to the business?
- What are some weaknesses for the business that can be filled by the next generation entering?
- When will the business start transitioning to the next generation?

- Will the incumbent generation stay on in a consultant capacity or will that generation exit completely?
- What does someone need to do to join the business?
- What funds are needed to facilitate succession?
- Does the incumbent generation need funds from the business to retire?
- Who starts the succession discussion, the incumbent generation or the successor generation?

A survey of midwestern farm and family businesses (Marshall et al., 2012) found that roughly 53% of incumbent generations had actively engaged in discussing possible transfer plan options with heirs or successors, leaving roughly 47% of businesses not discussing these options. Not shockingly, less than 30% of farms have identified a successor for their business; less than 28% of all family businesses have identified a successor (FBSS, Marshall et al., 2012).

The difficult discussions and potential conflict-inducing conversations that can stem from succession planning may seem onerous, but transparent and frequent communication are key to successful businesses. Why not use communication as your competitive advantage? Communication is a vital component of marriage; family businesses are a marriage of the family and the business. Allowing both generations to share their wants and needs in the succession process can set up a stronger business for both the present and the future.

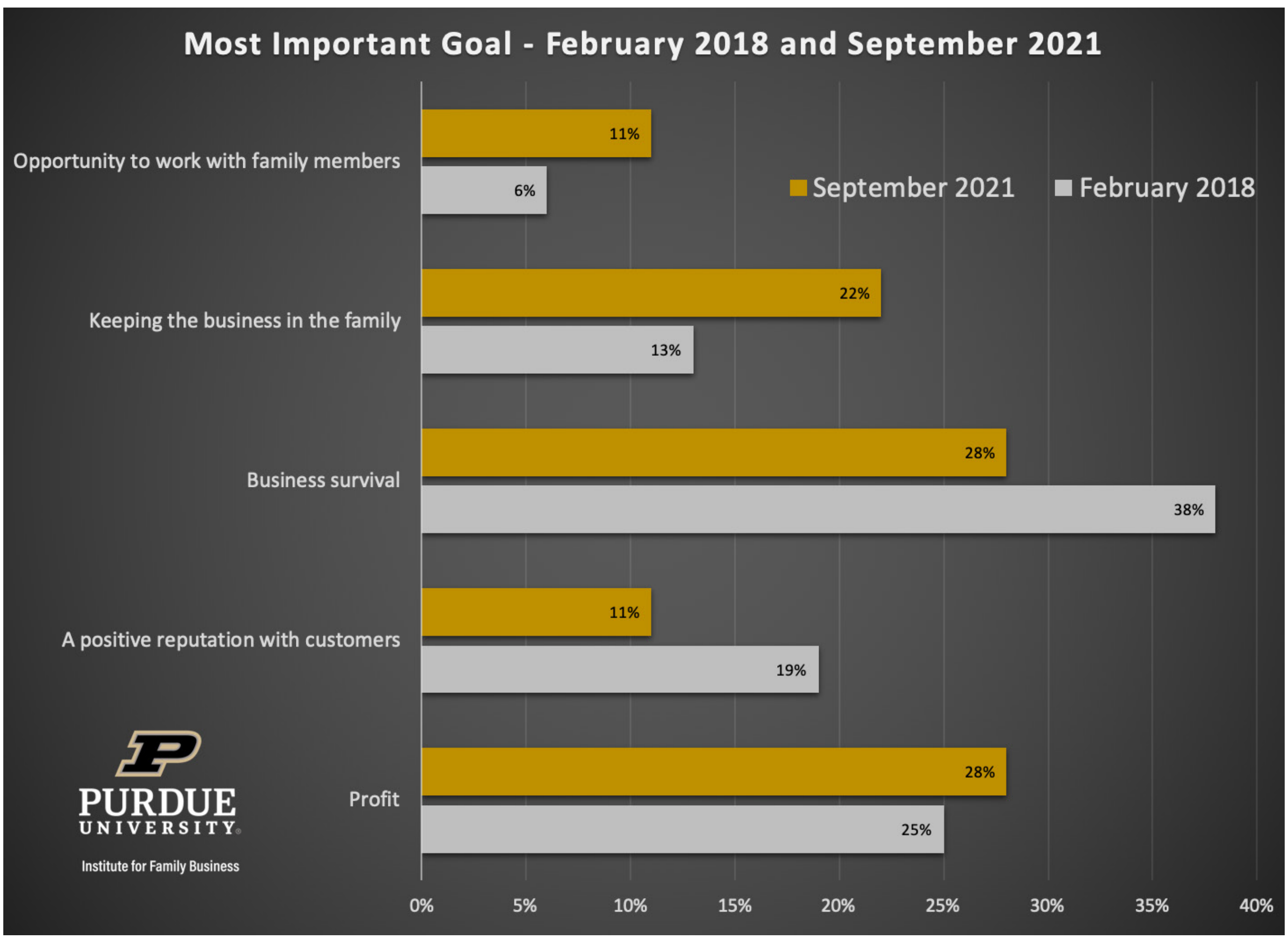


Strategic Business Planning: Priorities of Goals in Family Businesses

Renee Wiatt

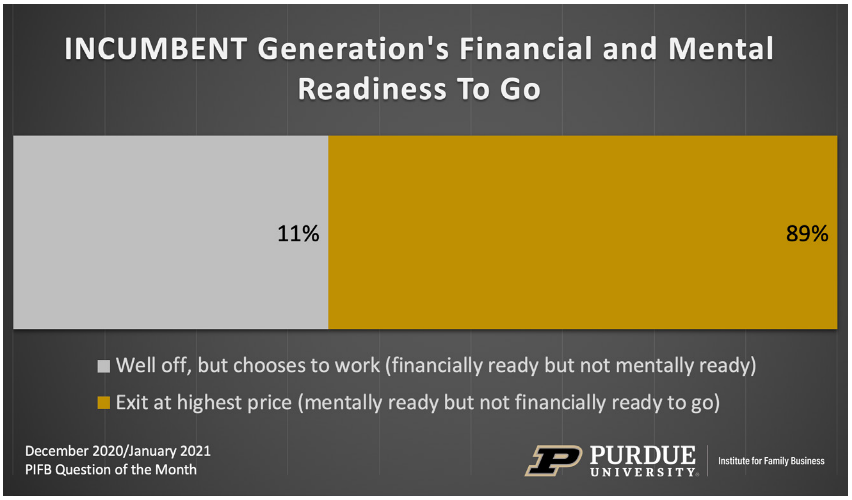
For our February 2018 and September 2021 Questions of the Month, we asked family businesses to rank their most important and second most important goals. When considering business goals, it would be intuitive to think that one of the most important goals would be financial. However, family businesses are located at a unique intersection of the family and business entities. Business goals can be financial or non-financial.

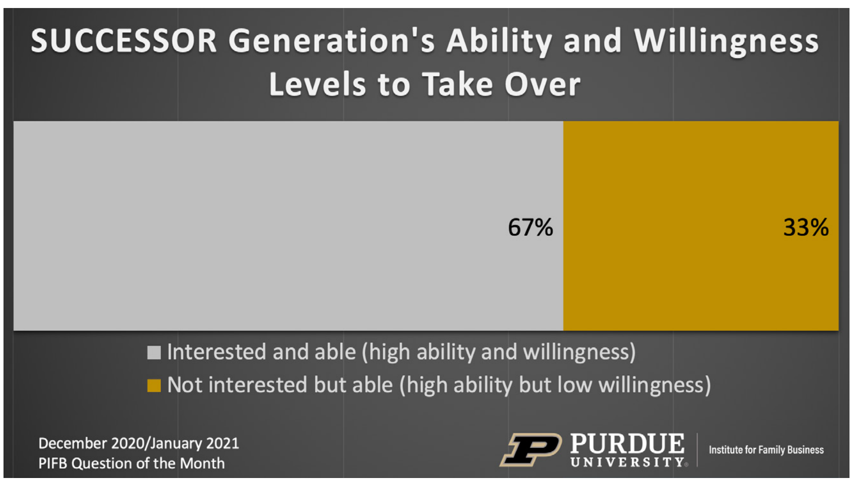
In 2021, profit and business survival tied for most important goal, one of which is financial and one non-financial. The 2018 results showed that the most important goal was business survival, followed by profit. The second most important goal in 2021 was keeping the family in the business was a clear leader, with profit ranking behind it. The second most important goal in 2018 was the opportunity to work with family members. In family businesses, keeping that business profitable enough to survive through generations and working with family members are important.



Leadership and Succession Planning: Incumbent and Successor Preparedness for Succession

Renee Wiatt





December/January 2021 question of the month results explored how prepared each generation is for the succession process. On the incumbent (senior generation) side, the individuals could be financially and mentally ready to let the business go or unready mentally and financially to let the business go, as well as anywhere in between (Zellweger, 2016). On the successor (junior generation) side, the individuals are on a spectrum of ability and willingness to join the business. Where individuals fall within these quadrants can have a huge impact on how smoothly (and quickly) succession can take place in a business.

According to our results, 11% of incumbents are financially ready but not mentally ready to let go and 89% are mentally ready but not financially ready to let go. On the other hand, 67% of successors were willing and able to take over the business and 33% were not interested but able.

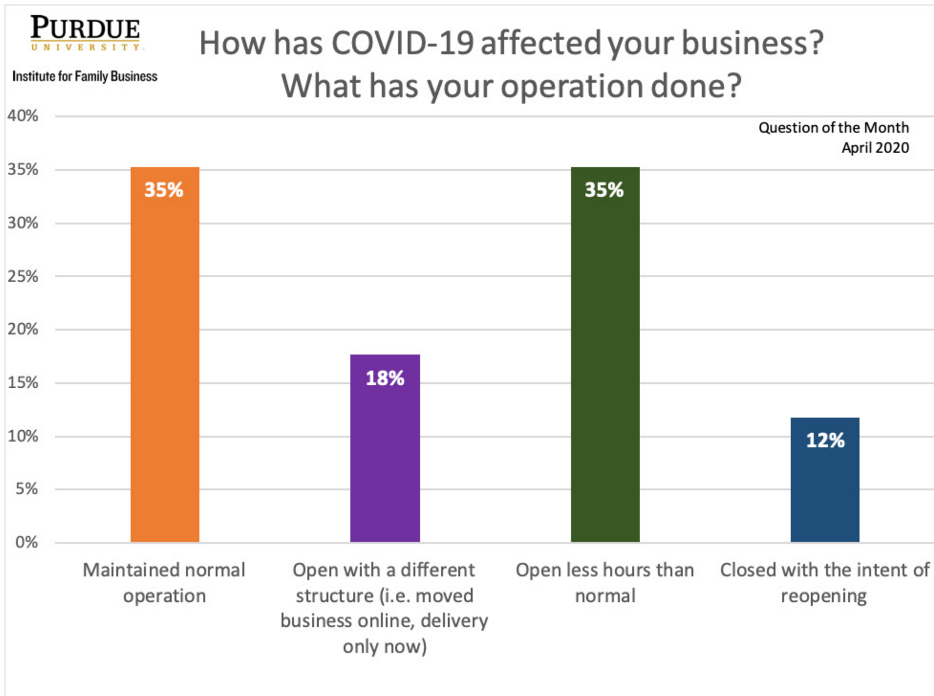
Furthermore, Maria Marshall and Renee Wiatt's survey of Indiana farmers in 2021 indicate that only 12% of Indiana agricultural producers are "rich and ready to go" (mentally and financially ready to go). Mental readiness for succession was seemingly lacking in our data, with 63% of farmers "well off but choosing to work" (financially ready but not mentally ready) and 25% of farmers in the "stay and grow" phase (not mentally or financially ready).

Because farms are often closely tied to the family, integrating the whole family into the succession plan is critical. Family members are often employees of the farm business that can ultimately transition to business managers and owners. According to the 2107 Ag Census, the number of farms with two or more producers increased 7% from 2012 (NASS, 2019). Solely because children grow up in a farm family does not mean that they are integrated into that business. Even with younger children, farm families can strategically include children in the farm operation. One example would be to allow children to be a part of decision-making on the farm – smaller decisions at first, which could grow into larger decisions as the child gets older.

Special Questions on COVID-19

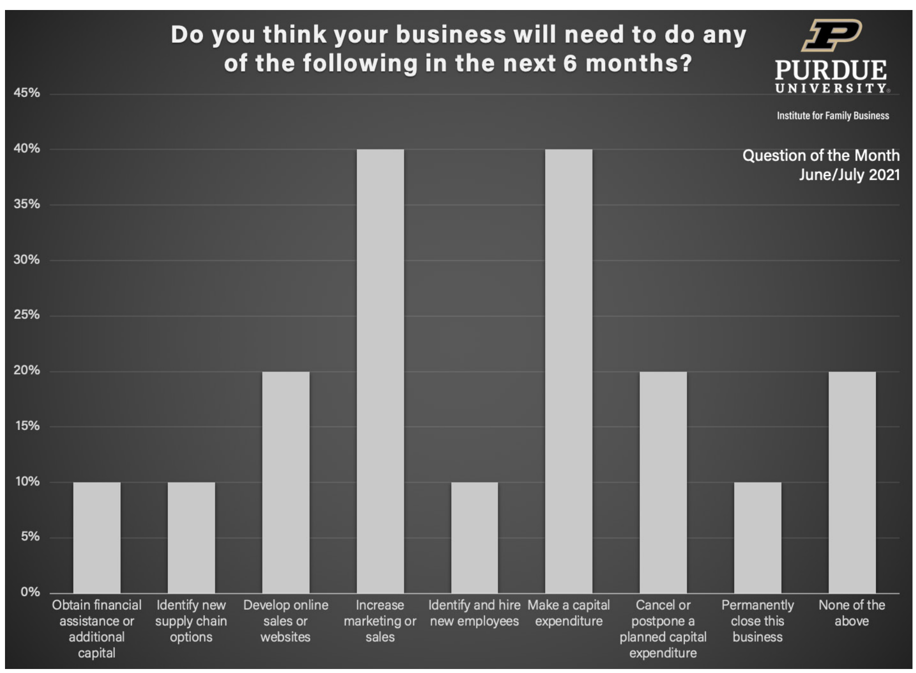
Renee Wiatt

Early in the pandemic, our April 2020 question of the month results showed that only 35% of business operations were unchanged in the wake of COVID. A small percentage had been open with a new structure (18%) and an even smaller percentage were closed with the intent of reopening (12%). Thirty-five percent of businesses had been open less hours than normal due to the pandemic. The graph (right) shows the results from the April 2020 question.



We asked the same question in June 2020. Results showed that 67% of family businesses were back to normal operation. The other 33% of businesses were open less hours than normal or open with a different structure. From April 2020 to June 2020, a significantly larger proportion of businesses were back to normal operation.

In the summer months of 2021, PIFB asked subscribers, mainly owners of small and family businesses, what they think their business will need to do in the next 6 months. The U.S. Census Bureau, via their Small Business Pulse Survey, evaluated which adjustments U.S. businesses were making to adapt. Our respondents replied that they most often will need to do the following (results shown on the right): (1) increase marketing or sales & (2) make a capital expenditure. No one responded that they need to learn how to better provide for the safety of customers and employees. Twenty percent of businesses did not plan on doing anything different in their business in the next 6 months.



PURDUE INSTITUTE FOR FAMILY BUSINESS PRESENTS:

LINKING SMALL BUSINESS ADMINISTRATION (SBA) RESOURCES TO INDIANA OWNERS

LINDSAY MALIQI

10-11 AM (ET) | DEC. 1

Purdue University

Institute for Family Business

Join the Purdue Institute for Family Business as we host Lindsay Maliqi, Economic Development Specialist for The U.S. Small Business Administration. This webinar is intended for Indiana Extension Educators; however, small business owners and others interested in this topic are encouraged and welcome to attend. Lindsay will be sharing SBA resources and how to connect small business owners to resources in Indiana counties as well as answering any questions that you may have.

The webinar will also be recorded. Even if you cannot join the live session, please register and we will provide the recording when it is available. You can REGISTER HERE.

Meet PIFB & Newsletter Contributors

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