

Family Dynamics in Business Transition

Adapted from a presentation given by Rodger Weaver at an AF business seminar

Approximately 70% of family businesses never transition from first to second generation.¹ The primary reason for this is relationship problems.

A breakdown in relationships often stems from poor character. Your character and your motives for being in business profoundly affect those close to you. For example, do profits or relationships mean the most to you? Is your business run as a Christian business, or is it simply a business run by a Christian?

The various personalities, backgrounds, and ideas of individuals in a family business can also be difficult to reconcile. You may be someone who charges ahead while another family member takes more time to think through issues. Our different gifts and personalities, though God-given, can create challenges in the business transition process.

Like icebergs, the biggest part of relationship issues is hidden underwater. On the surface, a business founder may say things like, "The boys are getting older, and I'm not sure how to get them involved in the business." The boys may say, "You know, Dad's getting older, and he just doesn't let go."

Underneath the surface are the true character and motives of family members involved in the business. Do the father and children mistrust each other? Does the

father think his children are not skilled enough to carry on the business? These factors affect whether a family business will successfully transition to the next generation.

The following true story illustrates some of the family dynamics in transitioning a business to the next generation.

General Hardware Store

Joseph² ran a logistics business hauling goods and products. Since his business gave him many outside connections, he began purchasing hardware products from other locations and bringing them home to sell in his local community. Eventually he decided to start General Hardware. He managed to raise the capital, purchase the land, build the store, and put in the inventory. His hard work paid off, and his business became successful, growing to four locations.

Eventually Joseph's son, David, joined the business and excelled as Joseph's right-hand man. Sometimes Joseph and his wife Sadie talked about transition, since they knew they couldn't be the sole owners of the business forever. Joseph often talked about setting up a corporation so that the whole family could buy stock in the company. Then it would truly be a family business.

¹ Boris Groysberg and Deborah Bell, "Generation to Generation: How to Save the Family Business," <https://hbr.org/2014/04/generation-to-generation-how-to-save-the-family-business>, (accessed on August 16, 2017).

² All names in this story have been changed.

One day Joseph came home from work feeling dizzy—and died suddenly of a massive heart attack. After the funeral, the family was left to figure out a new normal.

Since David was well-versed in hardware, he stepped into the role of president and recruited his sister Joann to oversee payables, receivables, and payroll. The business prospered, and David's heart became attached to it. He wanted to run the business himself and profit from it. He figured he could easily convince Joann and his mother that he should own and run the business.

Sadie, her two children, and a financial advisor met to discuss the business transition and structure. David laid out his desire to run the business, assuming the others would buy into his plan. After some silence, Joann said, "Well, David, you know what Father wanted. You know what Mother wants. She would like to honor Father's wishes and set it up as a corporation so the family could all have stock in the company. I think we ought to pursue that."

David responded angrily, and the meeting came to an abrupt halt. David's anger became so intense that Joann feared for her life. From then on she made sure she was never in a room with him by herself. (Who would have thought that in our Anabaptist communities someone would have to fear for her life!) The family began fragmenting, and the issue became the elephant in the room that nobody could talk about. Sadie was getting older, and everyone knew the transition needed to happen. Nobody had the courage, however, to look this elephant in the face.

Who Are You?

Your character—who you truly are—determines how you respond, especially when circumstances aren't in your favor. Pay attention to how circumstances affect your way of thinking and how they stimulate your emotions. Your emotions and actions spring from your attitudes, which spring from your values. Values that come from the principles of God's Word are like guardrails to keep you on the right path.

When David realized the potential of General Hardware, he started to covet it. When he couldn't persuade his sister Joann to buy into his idea, his selfish motives sparked intense anger. David's motives should've followed the JOY approach instead: Jesus first, Others second, Yourself last.

What if David would have had a vision for the positive

impact General Hardware could have had on his family? Sadly, instead of being guided by kingdom principles, he valued personal gain over healthy family relationships.

Business and Family Culture

Every business has a culture. Even two businesses doing the same thing will have different cultures. Churches, organizations, and families each have unique cultures, which can vary from generation to generation. Following are four aspects of a business culture:

- Beliefs and values: guiding principles deemed to be correct and desirable in life.
- Attitudes: a settled way of thinking or feeling about something.
- Behaviors: cooperative activities of the group.
- Traditions: beliefs and behaviors passed down with symbolic meaning or special significance.

Business culture is influenced by family culture. Christian parents define the culture in their home. They decide what their Biblical beliefs and values are, teaching these to their children. They decide what they honor and dishonor, what's allowed and what's off limits. They decide on their church affiliation and the type and level of their children's education.

Children grow up, become adults, and start their own homes. Now they choose. Likely their family culture will be similar to their own upbringing, but each home will develop its own culture. As these adult children take on more ownership and leadership within the family business, each of them will bring their own culture and values to the business.

Imagine four brothers growing up together and then becoming the new leadership within the family business. Johnny is the energetic brother who is willing to take risks to expand the business. He wants to change the marketing strategy. On a more personal level, maybe Johnny and his wife are the ones who decided to attend a different church or send their children to a different school.

The other three brothers are tired of Johnny's ideas. There's an unspoken consensus that Johnny is the oddball. The brothers begin to ignore Johnny's inspirations and visionary ideas. Johnny becomes hurt because he realizes his brothers

don't want to hear what he has to say. One of the brothers, frustrated that Johnny feels hurt, says something to Johnny that hurts him even more. Emotions flare, the hurts increase, and relationships start falling apart.

What does it take to bring unity to a business that's falling apart? How do you deal with the elephant in the room? How do you create a culture of transparent honesty that allows you to discuss the issues?

One of the first steps is to be willing to get together and openly discuss it. Define where you are heading and why. Putting Jesus first means putting others before yourself. Does your business vision and mission show your community, customers, vendors, and employees the Jesus way of doing business? Within your own family, is there respect for each other's interests?

The family dynamics involved in business transition can be sticky. Seek counsel from others and consider inviting them to be a part of a committee. It may be wise to have someone other than a family member chair the meetings.

Business Vision and Mission

An important way to bring unity is to clarify the vision of your business: where are you heading and why? What is your business mission, the way you'll accomplish your vision? A lot of conversation is needed to develop a collective understanding and agreement of the business vision and mission. This will involve discussions about your beliefs and values. What do you honor and dishonor? What is within boundaries and what is off-limits?

In addition to honestly discussing your business vision, mission, and collective values, you also need to decide who is responsible to lead and set the vision. Everyone needs to find common ground and agree. Inability to find common ground must be taken seriously.

Differences that have developed over the years need to be addressed so they don't create divisions in the business. Sometimes these conflicts occur when a family member changes church fellowship or holds convictions that could change how the business is operated. Family members must reach agreements before they can create a shared vision for the company.

The things you can't agree on are likely to become the things you just don't talk about anymore. But the elephant in the room keeps showing up, and it keeps growing. That

elephant will one day become very destructive, and it will cost you more than you want to pay. Scriptural principles indicate that it would be better to agree to part ways than to try to continue in business together.³

Ideally, everyone agrees on the business vision and mission. You identify your collective values and agree how the business should be run. Then it's important to teach this to the next generation and to your employees. Everyone in the business needs to know what the vision and mission are so they can become a part of it and own it. Each generation needs to decide together what the company culture should be. Each generation may look a little different, and that's fine.

Build within your culture an appreciation for clear and open communication. Purpose to have those honest, open, and fair discussions. Dad isn't going to farm the same way Grandpa did; the grandson won't farm the same way his dad did. Technology keeps changing; the marketplace keeps changing. Change is inevitable. Always try to understand the other person's perspective. Hear them out. Remember that communication is key.

Respecting the Founder

Compared to publicly owned companies that change CEOs every six years on average, family businesses often have the same leaders for decades.⁴ The dynamic of long-lasting leaders can create an extra challenge when it's time to transition the family business, especially if the leader is the business founder.

Business founders often possess characteristics that enable them to get businesses going. When it comes time to transition, however, these characteristics can backfire. To transition well, the next generation needs to recognize and respect the unique characteristics of business founders. Most business founders are:

- Adventurous: willing to take risks
- Visionaries: know where they want to go
- Confident: can make decisions
- Not perfectionistic: leave the small details for others

³ Amos 3:3 "Can two walk together, except they be agreed?"

⁴ George Stalk, Jr. and Henry Foley, "Avoid the Traps That Can Destroy Family Businesses," <https://hbr.org/2012/01/avoid-the-traps-that-can-destroy-family-businesses> (accessed on August 16, 2017).

- Relational: skilled in salesmanship
- Tenacious: view difficulties as opportunities

Business founders are not always sure how they're going to get somewhere, but they know where they want to go. They have a can-do attitude. They start early and work late. If something goes wrong, they stay with it until it's fixed. Seeing their business as a calling or mission, they keep pressing forward to be a blessing in the church and community.

Eventually businesses grow out of that start-up stage. The founder's sons come on the scene, and the business keeps growing. They are joined by employees and maybe even grandchildren. Eventually the founder enters the sunset years of life. He's getting tired and realizes he needs to hand over the keys to the next person in line. In this transition, however, "founderitis" can set in.

Founderitis. Sometimes a founder starts believing that he is the only capable leader. Before judging him, remember that he is the one who invested his capital and time to start this business. He took great risks and sweated much over the years. He made the business happen, so it's no wonder he is cautious about handing it over to someone with less experience. In the transition he may feel left out of decisions. Things will happen that he's not aware of. The piece of machinery he invested so much in is now obsolete and gathering dust in the corner. He may wonder if his successors are keeping the kingdom focus he had worked so hard to instill. These feelings are real. It's hard to let go.

We put a lot of planning into the transition as it relates to the successor, but the founder also needs a new role. Even though the founder is stepping back, he needs to feel valued and properly included. At this stage, that is true of every person in the business, but especially the founder.

This process of handing over the keys can be especially

difficult. Founders may benefit in taking a short sabbatical from the business to help with the process of letting go.

Reducing Founderitis. To keep founders from feeling completely out of the loop, communicate with them and pass on bits of information they will appreciate hearing. Let them know their godly example has not gone unnoticed and the principles they lived by will continue in the administration of the business.

Assure them that they are still valuable. Just because that old piece of machinery landed in the scrap bin doesn't mean that they went with it. The significance of that machine will always remain, even though it is no longer used.

Remember their contribution over the years. They've experienced the pressure, the sweat, the tears, and long working hours. They've been through it all. Remember that, and respect them for their vision and tenacity.

Review

The family dynamics of transitioning a family business often require you to ask questions about yourself: Who are you? What do your emotions and actions say about your attitudes, your values, and your character? Why are you in business? Is it to put yourself first or Jesus first?

To transition well, a family business needs clearly defined vision, mission, and value statements. There must be a culture of open and honest dialogue. Individuals within the business should seek to understand and respect each other's perspective. This will prevent those elephants from showing up and destroying both the family and the business.

When it's time to transition, the family must work respectfully with the founder to help him let go. Following God's principles during this emotional time makes transition easier and more successful.



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