A successful two-generation business arrangement depends on the smooth transfer of management. Below are some approaches to help you make this transition.

For a business arrangement to succeed, participation in management by both parties is important. The younger party should be given an increasingly important role in management. This transfer will not occur if the parent always pulls rank or persists in saying “I decide” rather than “we decide.”

While the parental objectives of taking things easier and eventually turning over control of the business are honorable ones, too often a hidden objective is present. Taking things easier often means the young person does much of the hard physical labor, while the parents continue doing all the planning and decision making. Also, eventually turning over the business often means training the young person until he/she thinks pretty much the same way the parents do.

A young person often comes into the business wanting to contribute his/her knowledge. However, his/her ideas are often subject to questioning by the parents, and friction develops. Soon the parties assume traditional child-parent roles. The parents give decrees and try to discipline the young person. The young person becomes rebellious and resentful at being treated like a minor child.

Both parties must realize that initially the young person is going to make his/her share of management mistakes. One of the objectives of the business arrangement is to provide a training ground for developing the young person’s management expertise.

Goals and objectives
Management decision-making is the way in which goals and objectives are achieved. Therefore, it is important that family members reach consensus on the relevant business goals and objectives. Otherwise business decisions will be in conflict.

For example, the farming child may want to have the largest farm unit in the county, but the parents’ goal may be to eliminate all farm debt. So, conflicting management decisions are occurring. However, the conflict is not with the management decisions, but rather with the incompatibility of the goals. Once the parties reach consensus on business goals, the management conflict should disappear. It may be helpful to establish a time each week or month, depending on family needs, for discussions of business affairs, goals, and objectives.

Decision-making authority
The key is to find a decision-making structure that develops the younger party’s management ability while protecting the parent’s financial interest and desire for control. Two general structures are presented below.

General manager
With this approach, one party has final authority (general manager). Logically this may be the older party. Both parties have responsibility for on-going operating decisions. The young person is involved in major decisions, but the final authority rests with the older party. This provides a managerial learning process for the young person by placing him/her in a position to make on-going operating decisions while being involved in overall decisions. This approach works best in the early stages of a two-generation arrangement. As the young person gains management skills, the role of the general manager can be decreased, transferred to the young person, or modified.

Equal voice
Another approach is to give each party an equal voice in decision making. With this method, both parties are more involved in decision making than with the general manager method. This approach often works best in the middle or later stages of a two-generation arrangement.
This approach may contain a provision for final authority if there is disagreement. Methods of final authority could be:

- vote by all parties;
- vote weighted by size of capital contributions;
- one party given final authority; or,
- outside arbitration.

Each party should understand how the final authority mechanism works in resolving disputes. Ideally, few disputes should ever reach the final authority process.

**Division of management responsibility**
Business arrangements are often more effective if the daily management responsibilities are divided between the parties. This will result in management specialization that may cause better decision making. The division may be based on individual interests and skills. Dividing management responsibilities reduces disagreements between the parties and promotes the development of the young person’s management skills. Overall decision-making can be accomplished with one of the methods discussed above.

**Enterprise division**
One party may be given management responsibility over the cropping program while the other is given responsibility over the livestock program. Each party can make operating decisions as long as they conform to the overall objectives of the business. Decisions of major importance or decisions involving the overall business would need to be approved by both parties.

**Functional division**
The division of management responsibilities can be based on business functions such as marketing, finance, or production. For example, a party with interest in record keeping and computers may be given financial management responsibilities, while the other party may have the responsibility for marketing decisions. The parties must communicate these decisions to each other. Any decisions that directly affect both functions can be made jointly. For example, the marketing decision of selling grain affects the financial cash flow of the business.

**Management styles**
People have different management styles because they have different personalities. Some managers are analytical and like detail (such as record keeping). Others rely on strong interpersonal skills and are good at networking and team building. Still others are drivers and enjoy competition and risk-taking.

Examine your management style and the styles of the other parties in the business. What are their strengths and weaknesses? A two-generation arrangement may be more successful if the parties have different management styles. Managers with different styles often complement each other and compensate for the other’s weaknesses. For example, an analytical decision maker may get too involved in facts and details and not seek the advice of other family members. Conversely, a manager with strong personal skills may be overly concerned about the needs of individuals and have difficulty making decisions that are in the best interest of the business. However, in certain situations, the parties may have management styles that clash.

**Withdrawing from management**
Every two-generation arrangement reaches the stage where the older party withdraws from active management of the business. This is often a difficult stage for them. It is important that it progress smoothly. The young person may facilitate the transition by asking the older party for advice on management decisions.