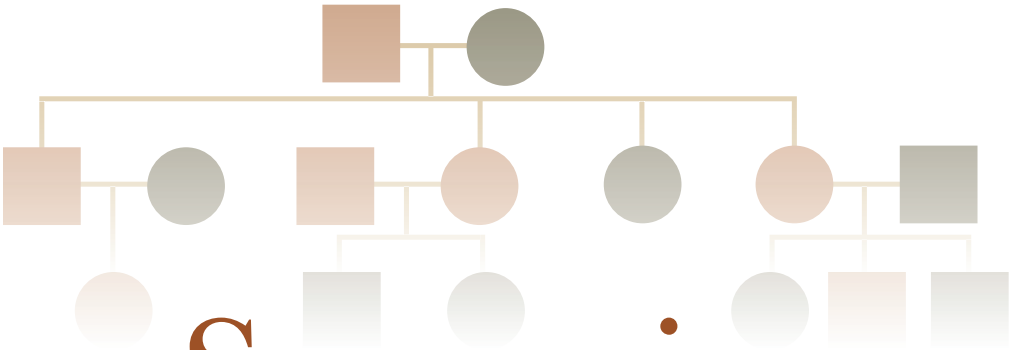

Succession Success

Careful discussion and planning are key to ensuring the family business continues with the next generation.

by Sara Gugelmeyer

"I can stick my foot in my mouth better than anybody. You never know when a conversation that's completely innocent is going to turn sour," says Dick Wittman, as he speaks about succession planning for farmers and ranchers.

It's a tricky subject, no doubt, and one that is often avoided because it's emotionally taxing and difficult to decide who is going to get what, how and when. However, not talking about it will only make matters worse, both in terms of familial relations and finances. That's the reason why folks like Wittman, who offers private consulting services, and academia like Montana State University's George Haynes and Kansas State University's Gregg Hadley, who offer materials and aids through Extension, are devoted to helping families approach these issues.

Haynes has seen good and bad succession planning and has been both a participant and a facilitator.

"I have been interested in this family business transition issue for a long time," he says. "I come from a family that handled its family business transition issue in civil court. We grew up in a situation where we couldn't have family dinners with the other half of our family. We lived with this our entire lives."

PHOTO BY KYLA COPELAND, FOCUS MARKETING GROUP

Get started

It's never too early to prepare for succession, all three agree. The earlier the better.

"Succession planning is an on-going process," Hadley says. "The actual succession plan should be developed before the next generation starts working for the farm in a career position. Then the plan should be reassessed frequently as situations change."

Wittman cautions folks to be prepared.

"You don't get a do-over," he says. "Once succession efforts implode, you don't get to back up and start over."

Also, Wittman says his 36 years of experience working with farm business have convinced him that the decision is never made until it's put on paper. Writing down conclusions and decisions made is especially important with succession planning because there are so many opportunities for miscommunication.

Before you sit down with a pad and paper, though, Hadley highlights the difference between estate planning and succession planning.

"Estate planning is how assets will be transferred to heirs. Succession planning involves estate planning but includes so much more like: establishing the business philosophy rights, management and workload, determining how the partners will work and communicate together, succession feasibility," Hadley says.

Wittman quips, "Succession planning is business life planning, estate planning is death planning."

Estate planning is an important part of the process, but without a true succession plan, heirs are likely to struggle with conflict and profitability.

Haynes says, "It's been my experience that resilient families connected to profitable businesses make really good family businesses. If one of those is missing — if the family isn't very resilient or the business isn't very profitable — then it doesn't work."

Call a meeting of all involved. That means everybody, not just blood relatives of the family: current owners, managers and employees; future owners, managers and employees; all heirs (even

continued on page 88...

...Succession Success continued from page 87

"The actual succession plan should be developed before the next generation starts working for the farm in a career position. Then the plan should be reassessed frequently as situations change."

— Gregg Hadley

those who may not be interested in actually working on the farm); and spouses.

Then, once everybody is gathered, open the lines of communication. Ask each person how and when he or she wants to be involved in the operation.

Wittman says, "Start with a conversation where no one feels obligated to make a decision. For example, ask, 'Kids, what are your goals, what are your interests?' Make it clear you're not talking about what we're going to do, just finding out where everyone's interests, concerns and goals are."

This conversation is critical because even though grandpa thought his grandson wanted to return to the farm, now he may realize that really the grandson just wants an ownership share, not day-to-day duties. Now is the time to clear up any misconceptions. This step should really determine how to move forward. If none of the children have any interest in providing actual farm labor or if no one feels comfortable with the financial risk of owning the farm, the plan needs to be designed accordingly.

Treat it as a business

Then it's time for the current owners or managers to take a step back and objectively look at those who are interested.

"Who out there is really capable of coming into your family business with you and being productive?" Haynes asks. "There have to be people that have human capital and skills that can run this thing. Both sides, family and business, have to be there to make it function."

Wittman says, "There are two different dynamics — who is going to do the labor and management in the future compared to who's doing it now and who is going to own the business? In this day and age there is too much capital involved to not think outside the box. Are there people that want to work in the business but don't want risk, just want a job? Are there people who want to work in the business and want to be investors? And are there people, maybe the next generation, that want to own part of the family business, but work somewhere else? Are those all reasonable scenarios? Absolutely. We need to put all these strategies on the table then ask experts to coach us in the pros and cons of each."

Once it's been determined how the overall structure of the business will look and who will be involved, it's time to write down how things will be run and who needs to do what.

"When we talk about writing job descriptions, a lot of people say, 'Well this is just bureaucracy.' But this is important. What's common is to put the oldest in charge. But being the oldest has nothing to do with any skill set," Wittman says.

He encourages families not only to write job descriptions for each person involved to avoid any conflicts with what is expected but also to write a family employment policy. He uses an example of what happens when your nephew who is a drug addict, has no skills and doesn't have similar values shows up on your doorstep demanding a job because he's family.

"Start with a conversation where no one feels obligated to make a decision."

— Dick Wittman

Succession planning steps 101

1) Start now.
2) Be prepared to invest plenty of time and energy into the process.
3) Get expert help.
4) Include all involved.
5) Develop planning rules.
6) Make sure the business can support itself and all involved.
7) Map out transfer of power/decision-making/ownership.
8) Write it down.
9) Be sure these are addressed: communication, emotional roadblocks, a financial analysis, business principles, and the five Ds (death, disability, disease, disaster, divorce).
10) Reconsider/revise the plan often. HW

"What are you going to say?" Wittman asks. "Without a written down employment policy, when you say he can't work there, you are suddenly in a very emotional discussion, because he can claim you won't hire him just because you never liked him."

Wittman says doing an Internet search for "family employment policy" can help you draft one really quickly to protect your business from the danger zone of abusing family preference. Family business advisors can also walk families through how to do this.

Meetings need to be held often, and non-family employees should be encouraged to be there, Wittman says. This approach helps keep the atmosphere professional. Family is often used as an excuse to act unprofessional. At each meeting, use the three "D" concept to plan and resolve conflict: discuss, decide and document.

"Just because you're family doesn't mean you can't be fired," Wittman says. "Accountability is critical. Do performance evaluations just as you would if you were in a non-family business. Set the accountability mechanism in place. Give young people job descriptions and then tell them when their first evaluation will be."

Evaluations are not just for the young though. Use evaluations across the board, but keep them professional. "Don't chew out your 50-year-old manager as though he was still your 6-year-old kid," Wittman says.

Make sure it makes business sense

In order for a business to continue, it must be financially viable. Lack of profitability is a death knell for any business. Setting up a family business which isn't profitable is just asking for conflict.

Wittman says, "Balance the business financially. If additional people are coming in, you must grow the business or ask people to work part-time to not deteriorate financial performance."

He encourages families to set up some gauges to monitor the financial health of the business so there are no surprises. "Use not just

continued on page 90...

"There have to be people that have human capital and skills that can run this thing. Both sides, family and business, have to be there to make it function."

— George Haynes

PHOTO BY KYLA COPELAND, FOCUS MARKETING GROUP

...Succession Success continued from page 89

calving percentage and similar gauges which are production-based, but return on assets, too. When times are good, spend money on outside advisors to help you better understand accounting principles and to prepare when times are bad."

It's critical to share financial records with successors as part of the early phases of succession planning. Wittman criticizes many farmers for not doing this early enough, resulting in the next generation assuming the business is more profitable than it is.

"It's often not that you don't want them to know, more that you don't know how to do it, or can't explain it," Wittman says.

This situation is an instance when a professional can be helpful. Wittman, Haynes and Hadley encourage farmers and ranchers to seek help. Wittman offers professional consulting services for a fee, and Haynes and Hadley also provide help through their respective universities and Extension services.

Difficult, but worth it

It's not easy, Hadley says, and that's why it helps to have rules and guidelines to govern the process. And someone from the outside can look at family dynamics objectively and help aid in communication to resolve long-standing issues. It's absolutely critical during the process to not ignore any emotional issues. Elephants in the room and skeletons in the closet must be dealt with now, or wounds will fester over time, jeopardizing the business and cohesiveness of the family.

"The cold hard facts are that 90% of family businesses fail to pass to third generation," Wittman says.

"Some use that as an excuse saying 'It will never work because these family deals never last.' But, is that destiny or choice? If you admit that making it work is a choice and believe your family created a legacy to pass on, ask yourself how to best design a managerial process or succession process that has a higher chance of success." HW

Succession myths

Kansas State University's Assistant Director of Agriculture, Natural Resources and Community Development Extension Programs Gregg Hadley identifies five succession myths which are important to dispel.

1 "We all get along great, so we don't need a detailed succession plan."

Not true. Hadley suggests asking the current generation of owner/manager, "Do you ALWAYS agree with your successor's business philosophy, management ideas and decisions?" Ask the same of the next generation, "Do you ALWAYS agree with the current owner/manager's business philosophy, management ideas and decisions?" If you're being honest, everyone doesn't agree 100% of the time, and these are areas which require discussion and planning to avoid serious conflicts.

2 Most successions fail due to the lack of a good estate plan.

Remember there is a difference between estate planning (which deals only with the transfer of assets) and succession planning (which takes into account much more). The most common causes of failed succession are disagreements about business philosophy, inadequate earning capability, disagreements about the transfer of work and decision making, emotional conflict, poor communication, and a lack of planning for the 5 Ds: death, disease, disability, disaster and divorce. If you want a successful succession, plan to avoid those problems, and the transfer of assets will be easy.

3 Succession planning should be done when the owner is ready to retire.

False. Succession planning needs to start long before ownership and management changes must take place. It's an on-going process, but the plan should be developed before the next generation starts working for the farm in a career position. Then it should be reassessed frequently to avoid catastrophe if one of the 5 Ds (death, disease, disability, disaster or divorce) hits.

4 Our farm or ranch won't have to change.

Possibly, but that would be rare. Remember, the farm or ranch has to pay for itself, its investment, the current owner's labor and management, and the next generation's labor and management. More than likely, some changes will have to be made to accommodate the next generation, and it's critical that the financial risk is assessed prior. Financial losses, especially when a young family is depending on the income, are devastating to not only the business but the family dynamic as well.

5 All we need to make this work is a good lawyer.

Lawyers may be helpful and/or necessary, but true succession expertise is likely needed. Communication is such a critical part of the process that it's likely families will gain most help from a communication specialist, counselor, conflict management expert, mediator or, even better, an experienced succession planning facilitator. HW