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Ag Legacy
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Why Don't Family Businesses Plan for Succession?

By John Hewlett, UW Ranch/Farm Management Specialist

Nearly everyone will recognize the importance of a succession plan for successfully transferring a business to the next generation. Doing no planning or choosing to avoid the issues involved almost always leads to disastrous results. However, less than 40 percent of agricultural businesses have a succession plan. What's the hold up?

Logic would suggest that developing a succession plan would be an obvious step toward transferring management and business ownership. However, complex forces are at work and, despite recognizing the importance of a plan, most farm owners and managers decide to do nothing about succession. Some of the reasons they give for this include:

- **Control**: Few business owners find it easy to come to terms with the idea that the business could operate and survive without them. Thus, they are reluctant to give up control. Facing the reality that others may be able to run their business as well or better than they can is painful and threatening. The business defines them and surrendering power can be the one sacrifice they are not prepared to make.
- **Fear**: Fear of retirement can also be a powerful force. The thought of leaving their day-to-day involvement in the business and adapting to a whole new life style can be scary. Succession planning forces business owners to think about the end of their lives and come to terms with their own mortality. These thoughts can evoke feelings of fear or regret.
- **Inability to Choose**: The inability to choose among children often discourages succession planning. The dilemma focuses on differences between business values and family values. Should the selection be based on business competence versus the family values of loving and treating all family members equally?

Hindrances

Owning and operating a farm or ranch has some unique differences compared to most other occupations. The primary differences that most hinder succession planning in agricultural business include:

- **Emotional Attachment to the Land**: Most farmers are emotionally attached to the land they own and manage. In many cases, these lands have been a part of the family for more than one generation. Selling or dividing the land is often not considered due to these emotional attachments.

- **No Plans to Retire**: Many full-time farmers have a very difficult time hanging-up their hats when the time comes to retire. They often never expect to fully retire from farming. The reasons are many but often center around the 24/7 work ethic and personal drive that led them into farming in the first place. Most farmers have developed a lifelong attachment to farming and many find it hard to accept the slowdown that generally comes with retirement.

- **Farming Lifestyle**: Farming is a lifestyle and most people in agriculture feel it offers something non-farm life can't match—the opportunity to live, work, and play together; live in the country; teach children responsibility, a strong work ethic, and healthy goals and values. Most who have lived this lifestyle are loath to give it up for any reason.

- **No Retirement Income**: No source of retirement income is another issue that often prevents agricultural managers from fully retiring. In many cases, farmers have invested in agricultural assets (land, machinery, livestock, buildings, etc.) throughout their careers and have had few resources to invest in retirement plans. In order to perpetuate the business, it is inadvisable to sell or otherwise liquidate productive assets.

Planning for the transition of management responsibilities to the next generation brings up a number of additional issues. These can be grouped into three broad categories: interpersonal issues, business issues, and succession planning issues. Interpersonal Issues can arise from differences in perspective of the founder and next generation managers. Those perspectives vary across family and non-family members of the business, as well as across blood relations versus those who have married into the family.

Perspectives

Differences in perspective can be sources of conflict between founders and next generation managers, including: control over the performance and direction of the business, different ideas about gender roles, and generational priorities and values (relationships, sibling rivalry, etc.). Founders tend to adopt one of three attitudes regarding the family business and managing transition to the next generation:

- **Proprietors** are focused on ownership of the business and see themselves as central to the business' future. They can be very controlling of any involvement of children in the business, as they do not trust others' abilities to make good decisions. As a result, their children often become passive or rebellious as a reaction to the over-authoritarian approach of the proprietors.

- **Conductors** like the idea of the family business and encourage children to become involved. However, they remain firmly in control of the business. They are not usually interested in developing a detailed succession plan, but try to foster a business culture and environment.

- **Technicians** create a business around their own technical skills and creative abilities. They generally dislike the management aspects of the business and often delegate those responsibilities to others. However, they view themselves as essential to the business, where no other person could possess the same skills as they do. As a result, they do not pass on their skills to others, nor do they easily let go of their role in the business.

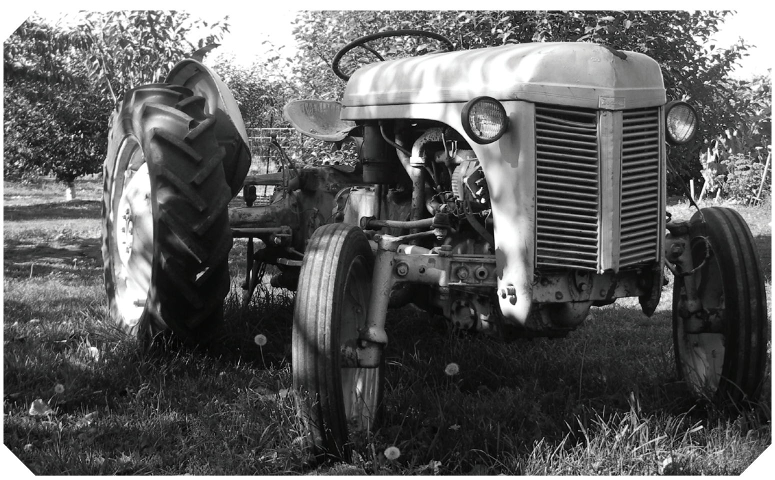
The Next Generation

The next generation is typically made up of children of the founding generations; however, this group may be any person in the family business who is younger than the founder. The perspective and issues for next generation managers of family businesses vary depending on the individual's relationship to the founder:

- **Sons**: Sons are the traditional inheritors of management or leadership roles in families and so too in family businesses. Fathers and sons may be able to work well side-by-side in a business, but just as likely, the father-son relationship, and accompanying rivalry or friction, may spill over into the business.

- **Daughters**: Daughters are more often assuming roles of responsibility and management in family businesses in recent years. Father-daughter relationships are less often fraught with friction or competition. This may prove to be a stronger foundation for successful management succession in families where this role is more readily accepted.

- **In-Laws**: Marrying into a family business may provide opportunities to become involved in that business. However, the road to involvement can include many problems, including: Feeling like an outsider, being overwhelmed by the closeness of the relationship with spouse's family, being treated with suspicion by other family members, and jealousy or competitiveness on the part of other family members.



- **Multi-Family Businesses**: Family businesses may be comprised of more than one family. Although such arrangements may create more opportunities for individual family members and a larger set of skills/expertise, it can also be increasingly complicated due to the greater number of individual interests involved.

- **Non-Family Member**s: Larger family businesses usually include non-family employees. Most often these individuals provide general labor and do not expect to become owners or hold positions of higher responsibility. When a non-family member is named as successor in the business, they must learn to successfully navigate the political and emotional land mines of various family relationships.

It is critical to the successful transfer of management control that members of the founding and next generations learn about one another. Both generations must come to a common vision of the future of the business for succession to occur smoothly. The success of any family business is more likely with good communication. This is especially true during times of transition. The approach used for communication can be a source of issues for management succession. A common belief about conflict is that it is uncomfortable and should be avoided. Have you ever considered that conflicts can have some positive benefits? How individuals in the business and in the family handle conflict can make all the difference in how smoothly the transition proceeds.

Other Reasons

Business Issues — Some families are hesitant to formalize the management of their farm businesses. However, by formalizing the management of the business, the family can more smoothly undergo a transition like ownership and management succession. Goals can be set, milestones determined, and progress evaluated more easily. Failure to effectively communicate with other business members is the root cause of most family business failures. How business communication is handled, who gets to know, how authority is delegated, the process for assigning business roles and responsibilities all can create issues for management succession.

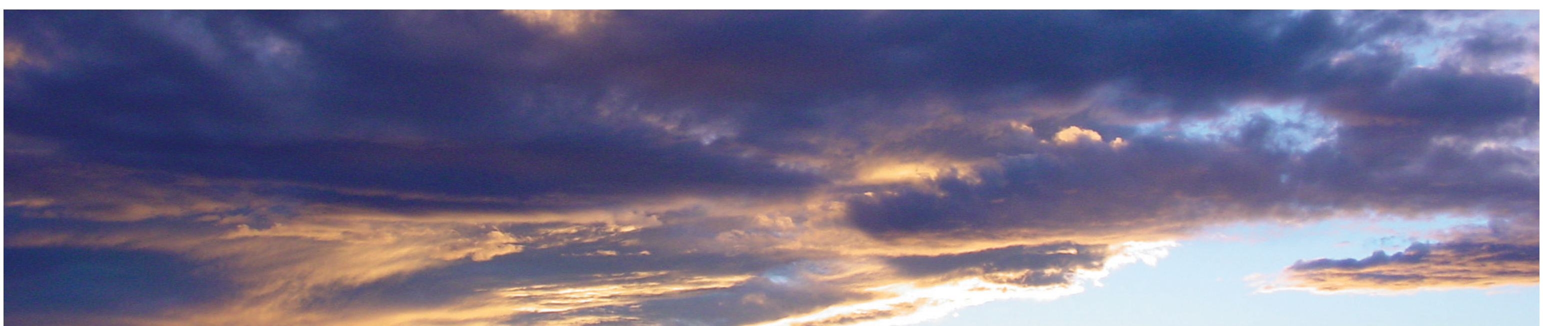
Succession Planning Issues — There are two distinct transfers to consider during succession planning. One is the ownership of the business and the other is the management of the business. Transferring ownership of a business the founders have put blood, sweat, and tears into may be very difficult. Seeing someone else own and control what they have started may initiate a strong sense of loss and start a grieving process. Many legal questions and personal preferences must be considered. The level of stress will be reduced by beginning preparations early and methodically. Adequate legal and financial advice by attorneys, accountants, lenders, etc. is a must. Founders must realize that someone else will own the business someday, even if it is after their eventual death, and it is best they make the decisions and preparations rather than a probate court.

The second issue of succession is the management of the business. Transferring management of the family business is challenging. In addition to the feelings and needs of everyone involved, founders should also consider individual interests and skills. Many founders fail to stop and consider that family members may have accepted a role in the family business only because it needed filling. They may have experience and interest in something different than what they are doing today. Following an orderly process to engage the individuals involved in both the family and the business can help to avoid issues in the transition of management.

Moving Forward

Clearly the transition of business ownership and management responsibilities in any business is challenging. It is even more challenging for family businesses where the individuals involved are family relations, business colleagues, and possibly rivals for future business ownership.

The complexity of the situation can be compounded when all the issues are not addressed or are not covered completely. The self-paced courses and other materials available at AGLEGACY.org can help to structure the process and organize the decisions. Workbooks, bulletins, and links to external resources are linked on the site to assist, no matter where you might be in the process.



An online module, including a recorded presentation covering growing relationships with the next generation, and other information on developing your management succession plan is available at our website. For more on upcoming modules, past newsletters, and for information about Ag Legacy see **AgLegacy.org**. Requests for additional information may be emailed to Information@AgLegacy.org.

Ag Legacy Newsletter:
Contributing Authors -
Caleb Carter, ccarte13@uwyo.edu
John P. Hewlett, hewlett@uwyo.edu
Editing/Layout - John P. Hewlett, hewlett@uwyo.edu

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