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Ag Legacy
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Where Are We with Our Management Succession?

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Jason and his dad, David, are unclear how they should proceed. David and his father built the farm the families currently depend on to generate their livelihood. However, David struggles with communicating private information with others. He has never shared any financial information about the farm with anyone other than his wife of 56 years, Martha. Further, he has not shared any of his ideas on how the farm might be passed on, once he and Martha are ready to retire. Jason and his six siblings have been wondering how to approach the subject but are at a loss about how to begin. Every time someone tries to bring it up at a birthday party or over a holiday meal, David just leaves the room. Even Martha is unsure how to proceed, as David is reluctant to share his thoughts, even with her.

Challenges

A survey of baby boomers' and their parents' views of inheritance and the issues of greatest importance to them was conducted by the Allianz Life Insurance in 2005. They found that fully 21 percent of boomers say they have not discussed any of the issues pertinent to a legacy plan with their parents. Although, both boomers and elders think and say they are having in-depth conversations about legacy planning. In reality, these conversations are not happening in a truly productive and meaningful way. In reality, most of us do not know how or are uncomfortable with discussing legacy issues.

We know that the issues are important but struggle to find the words to open the subject, no matter which side of the issue we might find ourselves. In fact, the Allianz survey found that among the baby boomers whose parents had died, fulfilling last wishes and distributing personal possessions were five times more likely to have been the greatest source of family conflict than splitting any inherited money. Clearly, if that is true, discussing who will take over management responsibilities of the family business would seem to be an even tougher nut to crack.

It seems logical to assume that, where the manager and management in general of any family business is critical to its success, the success of that family business into the future depends almost entirely on the ability of the family to transfer management responsibilities to the next generation. However, it is said that only 1/3 of all family businesses successfully transition to the next generation.

Failure to plan is planning to fail -Ancient Proverb

Most business owners recognize the importance of a succession plan in determining whether a business successfully transfers to the next generation. Doing no planning and/or choosing to avoid the issue almost always leads to disastrous results. However, less than 40 percent of agricultural businesses have a succession plan. So what's the hold up?

Complex forces are at work and despite recognizing the importance of a plan, most farm owners and managers decide to do nothing about succession. Several, commonly-sited reasons for not having a succession plan or not wanting to discuss one, include:

OWNERSHIP	MANAGEMENT
Owns the assets and net worth of the business	Runs the day-to day operation of the business
Affected by the financial performance of the business	Responsible for the financial performance of the business
Requires capital	Requires the right skills and competencies

- **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 realty 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 a huge sacrifice.
- **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 is 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?
- **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 that 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.
- **No Retirement Income**: No source of retirement income is another issue that often prevents farmers 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.

Transferring Ownership and Management

Passing a business from one generation to the next involves transferring both ownership and management of the business from one individual to another. Transferring ownership of the family business assets can be fraught with emotional land mines and the possibility of damaged relationships. Just a few of the issues involved could include: 1. The desire of the founders to be fair and while this may be a laudable goal, the objective rarely results in the intended outcome. Each member of a family may have a different idea of what is fair. 2. Ensuring the business has adequate capital in an attempt to make sure that the new owner(s) has enough to provide for the needs of the business now and in the future. 3. Covering the needs of other family members may be important, but in fairness, family members who are not included in the future ownership of the business may need to have alternative plans for their future. 4. Selecting the mechanisms to ensure desired outcomes are achieved may be difficult. However, family members and other individuals involved in family business ventures can make an orderly transfer of ownership more likely by following a systematic method of evaluating the alternatives.

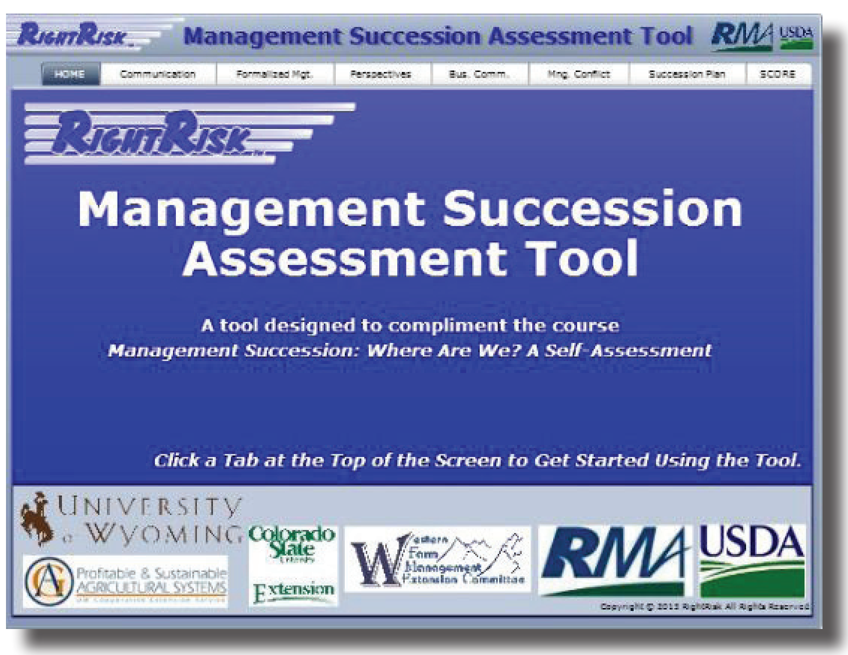
Succession Planning Process

A big challenge in succession planning is knowing where to start. This seven-step process defines not only how to begin, but also important actions to take throughout the entire transition. The first step is to establish a timeline for succession. The key to this step is to start early. This is a process not an event. None of us knows what the future might bring, so it makes sense to have your plan ready in case something unexpected happens, such as injury, disability, death, or divorce. Rather than waiting until the issue is forced upon you, start the process in calm circumstances when there is time to discuss issues and come to agreement. This can prevent serious damage to family relationships and the business. It will also allow potential successors to better prepare for the transition. Other steps in the process include: Establish a Planning Team, Select a Successor, Develop a Written Plan, Communicate the Plan, Plan for Retirement, and Enjoy the Future.

Where are we?

Understanding where you are in the succession planning process can help to recognize what should come next, especially if one or more steps have already been taken. For this reason, completing an assessment to gauge where your business is in the succession planning process can help to evaluate key components of management succession. The Management Succession Assessment, available from **AGLEGACY.org**, includes components addressing: communication, formalized management, perspectives, business communication, managing conflict, and the succession planning process.

Under each component, a series of questions are presented for the reader to respond to. Users are asked to read the statements carefully and rate their level of agreement between 1 and 7, with 1 being Strongly Disagree and 7 being Strongly Agree. Once they have rated all the statements for a component, a scoring guideline helps evaluate how prepared they are for management succession. For example, a few of the 27 questions in the Communication component include: Our family effectively uses questioning to improve communication and information exchange. Our family provides feedback inconsistently. Sometimes it is constructive and sometimes it is destructive. Our family does not use questioning to better understand each other's perspectives and ideas.



The Management Succession Assessment is available in a written form in the Management Succession Workbook. An electronic version of the assessment is also available for automatic scoring and stop-light analysis (red, yellow, green colors assigned based on the scores received) to aid understanding of the importance of various scoring levels, and across assessment components. See the Management Succession: Where Are We course at **AGLEGACY.org** and navigate to the Resources tab in the main menu to view the Assessments in either written or electronic format. Note that the electronic version will download to your computer and will not be shared with anyone online.

Charting a Course Forward

The transition of 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 the underlying issues are discussed or addressed. Following a formal succession planning process will increase the likelihood of a successful transfer of management responsibilities. While it is possible to transfer management responsibilities without following any steps, failing to complete one or more of the steps outlined in this newsletter may put the future of the business and individual relationships at risk.

Transitions in family businesses introduce many opportunities for interpersonal conflicts to emerge. It is important to practice good communication skills and sound conflict management approaches to keep these issues from becoming barriers to success.

Portions of this article are adapted from an online course entitled *Management Succession: Where Are We?* by Rodney Sharp, John P. Hewlett, and Jeffrey E. Tranel, 2012.

The course is available free of charge at **AGLEGACY.org** > Learning.

An online module, including a recorded presentation covering values and life lessons 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.

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