



MANAGEMENT SUCCESSION

WHERE ARE WE? A SELF-ASSESSMENT

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UP IN THE AIR

Kalang Ranch – The Miller Family



Joe & Judy

Graham



SUCCESSION PLANNING

Succession planning — the first stage of a smooth and efficient transition of ownership, leadership, and management of a business to the next generation.

- Only 1/3 of all family businesses successfully transition to the next generation.
- 70% do not survive into the 2nd generation.
- 90% do not survive into the 3rd generation.



SUCCESSION PLANNING, CONT.

*Failure to plan
is planning to fail*

-Ancient Proverb

Less than 40% of agricultural businesses have a formal succession plan

WHY DON'T BUSINESSES PLAN FOR SUCCESSION?

Reasons why business owners avoid success planning:

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 a huge sacrifice.

WHY DON'T BUSINESSES PLAN FOR SUCCESSION?

Reasons why business owners avoid success planning:

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.

WHY DON'T BUSINESSES PLAN FOR SUCCESSION?

Reasons why business owners avoid success planning:

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?

SUCCESSION PLANNING IN AGRICULTURE

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

Emotional Attachment
to the Land

No Plans to Retire

Farming Lifestyle

No Retirement Income

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.



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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.

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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.

SUCCESSION PLANNING IN AGRICULTURE

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Farming Lifestyle

No Retirement Income

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.

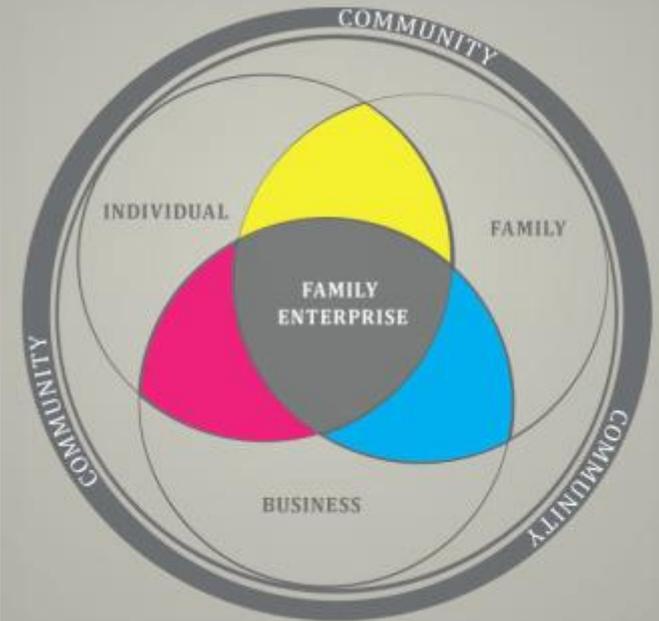
In order to perpetuate the business, it is inadvisable to sell, or otherwise liquidate, productive assets.

THE FAMILY ENTERPRISE

The family enterprise is an assembly of individual, family, business, and community systems forming a complex, unique whole.

Primary issues facing the family enterprise might include:

- Conflicts between business and family values in how rewards, training, promotions, and operating policies are viewed
- Conflicting motives: the motive of the family is to seek harmony while the motive of the business is to seek profit
- Levels of participation and commitment to the individual, family, business, and community
- Intergenerational differences in perspective and point of view



IN THIS COURSE

This course includes three modules:

- INTERPERSONAL ISSUES
- BUSINESS ISSUES
- THE SUCCESSION PLANNING PROCESS

Each module includes an assessment that you can use to evaluate the readiness of your business for management succession.

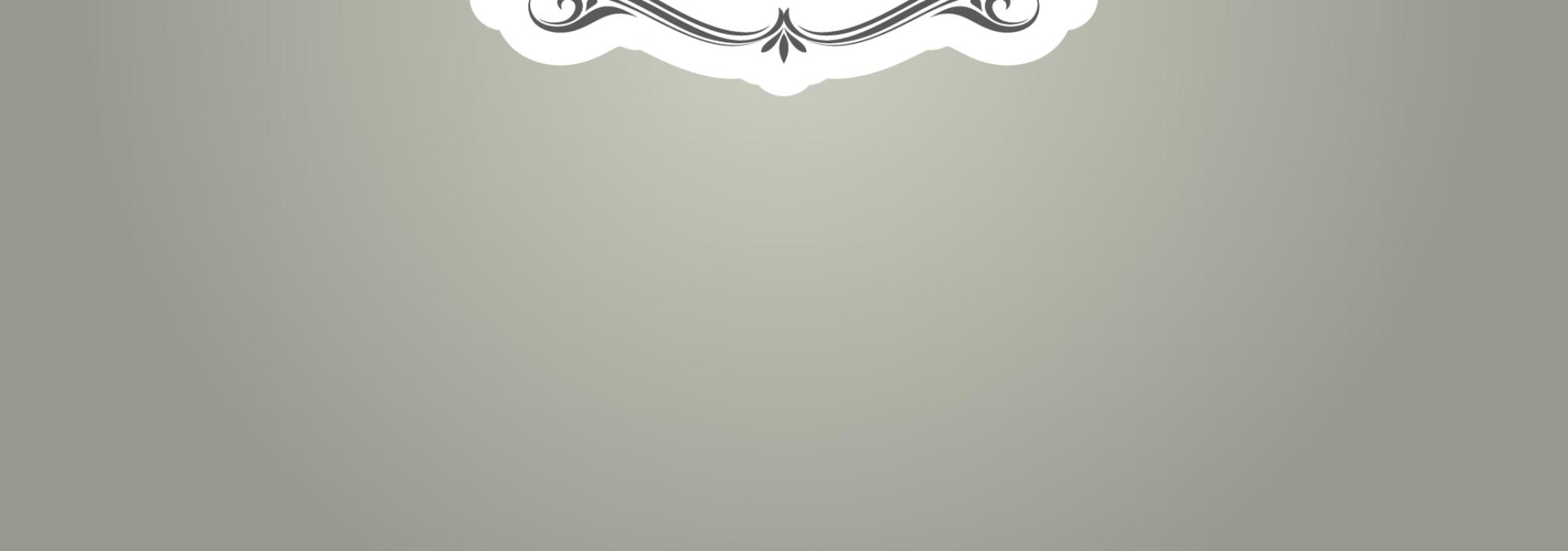




1ST

INTERPERSONAL ISSUES

ORIGINAL



INTERPERSONAL ISSUES

This module covers:

- PERSPECTIVES
- COMMUNICATION
- MANAGING CONFLICT



PERSPECTIVES

Sources of conflict between founders and next generation managers can include:

- Control over the performance and direction of the business
- Different ideas about gender roles
- Generational priorities and values (relationships, sibling rivalry, etc.)



FOUNDERS

Founders tend to adopt one of three attitudes regarding the family business and managing transition to the next generation.



Proprietors



Conductors



Technicians

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

NEXT GENERATION

Perspectives of next generation managers vary depending on the relationship to the founder.

Sons

Daughters

In-Laws

**Multi-Family
Businesses**

**Non-Family
Members**

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.

NEXT GENERATION,

Questions to consider about the generations:

- What are their personality types?
- What parts of the business are they most interested in?
- What applicable skills and experience do they have?
- Do they have interest in a managerial role?
- How well do they work with the founders? With other business members?
- Are they committed to the continuation of the business?

My Dad was larger than life in a lot of ways. He was the business and the business was him. There wasn't a lot of room for my interests or opinions. And that was okay with me, until he was gone. I was left to lead the business with a direction and purpose that didn't really fit me and what I was best qualified to accomplish.





PERSPECTIVES SELF-ASSESSMENT

PERSPECTIVES

FOUNDER CONTROL ISSUES AROUND TRANSFER TO THE NEXT GENERATION

Our founder has discussed and agreed upon how control of the business will be transferred to the next generation with the family.

Our founder has expressed how he/she envisions transfer of control of the business to the next generation.

Our founder has not addressed how control of the business will transfer to the next generation.



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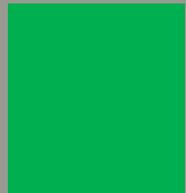


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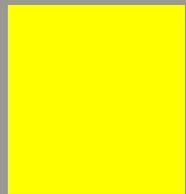
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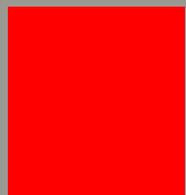
PERSPECTIVES SELF-ASSESSMENT



Green (215 – 301) Congratulations! Your perspectives score is strong and suggests a high chance of a successful business transition.



Yellow (129 – 214) Caution! Your perspectives score indicates improvement is needed to increase the chances of a successful business transition.



Red (0-128) Alert! Your perspectives score indicates attention is needed to increase the chances of a successful business transition.

GOOD COMMUNICATION

- It is very difficult to change an organizational or family culture once it has been established.
- If employees routinely feel that they are not heard and their opinions do not matter they will “shut down,” and stop contributing
- It is much easier to create an environment which facilitates open communication, than to try to fix poor communication habits once they have become entrenched.
- Taking active steps towards improving communication will benefit all employees as well as the farm operations.



EFFECTIVE COMMUNICATION

Questioning

Listening

Providing Feedback

Asking the right questions is at the heart of effective communications and information exchange. By using the right questions for a particular situation, you can achieve many desired results. For example, you can gather more information, learn things you didn't know, build stronger relationships, manage people more effectively, and help others to discover their own answers.



TYPES OF QUESTIONS

Closed Questions

Opening a conversation:

"Great weather we're having, isn't it?"

Testing for understanding:

"So, would you like to have your own land?"

Frame setting:

"Are you happy with the service from your bank?"

Concluding a discussion or making a decision:

"Are we all agreed this is the right course of action?"

Open Questions

Developing a conversation:

"How was the party?"

"What did you do on vacation?"

Obtaining Information:

"What happened next?"

"What else do we need to do to make this a success?"

Determining the speakers opinion or point of view:

"What do you think about those changes?"

"What is most important to you?"

LISTENING SKILLS

Don't Talk

**Focus on the
Speaker**

**Empathize &
Avoid Judgment**

**Use Your
Whole Body**

Don't Talk

When others are talking, listen to what they are saying; do not interrupt, talk over them, or finish their sentences. When the other person has finished talking you can ask questions to ensure you have received their message accurately.

PROVIDING FEEDBACK

Be Positive

**Reflect the
Speaker**

**Leave the
Door Open**

**Watch Your
Body Language**

Be Positive

It is easier for people to accept feedback that is framed in a positive way. That does not mean you always have to agree with everyone or hold the same point of view; however, you should begin your feedback with positive comments, observations, or common ground before pointing out differences. Resist the temptation to judge another's message as good or bad, right or wrong. Accept it as simply their point of view.



COMMUNICATION EFFECTIVENESS

COMMUNICATION EFFECTIVENESS

PRACTICE EFFECTIVE COMMUNICATION SKILLS

Our family understands the importance of effective communication skills. We are committed to invest time and money to help family members improve their communication skills.

Our family occasionally supports and encourages family members to improve and practice effective communication skills, but we have not spent much time discussing the topic and its importance to our success.

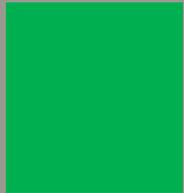
Our family does not support or encourage family members to improve and practice effective communication skills.



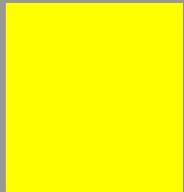
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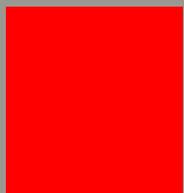
COMMUNICATION EFFECTIVENESS



Green (135 – 189) Congratulations! Your communication skills score is strong and suggests a high chance of a successful business transition.



Yellow (81 – 134) Caution! Your communication skills score indicates improvement is needed to increase the chances of a successful business transition.



Red (0-80) Alert! Your communication skills score indicates attention is needed to increase the chances of a successful business transition.

FAMILY CONFLICT

Two people may have different values and beliefs that may lead them to pursue different goals or use different methods to achieve the same goals.

Conflict occurs when one person perceives a block to achieving his or her goal.

Positive effects of conflict:

- Confrontation can lead to change
- Awareness of conflict can motivate people to action
- Conflict surfaces problems that need to be addressed
- Disagreements often cause people to think through a decision more carefully

I think there were some great opportunities for the future when Graham and Martha married. Unfortunately, we missed out on them because everyone was so focused on getting their way. We weren't able to hear each other and use the different points of view to create better solutions than any one individual had.



MANAGING CONFLICT

Approaches for managing family conflict:

Work it out

Mediation

Arbitration

Separation

Work it out

Encourage the family members to resolve their own conflicts by working through an agreed upon process. Encourage family members to attack the problem, not the person and reward individuals when they solve their own problems.

WORKING THROUGH CONFLICT

This process is a way for families to approach conflict creatively. It does not offer specific answers, but provides a formula for conflict resolution.





CONFLICT MANAGEMENT ASSESSMENT

MANAGING CONFLICT

ACCEPT CONFLICT

Our family sees conflict as a sign that change is needed and an opportunity to make improvements.

Our family looks at conflict as a negative, but we try to find solutions and occasionally have some success.

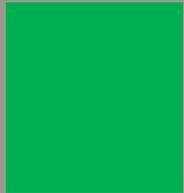
Our family looks at conflict as a negative and avoiding the issue is a common practice.

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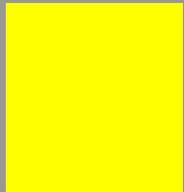
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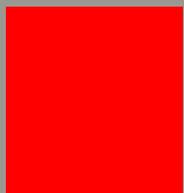
MANAGING CONFLICT



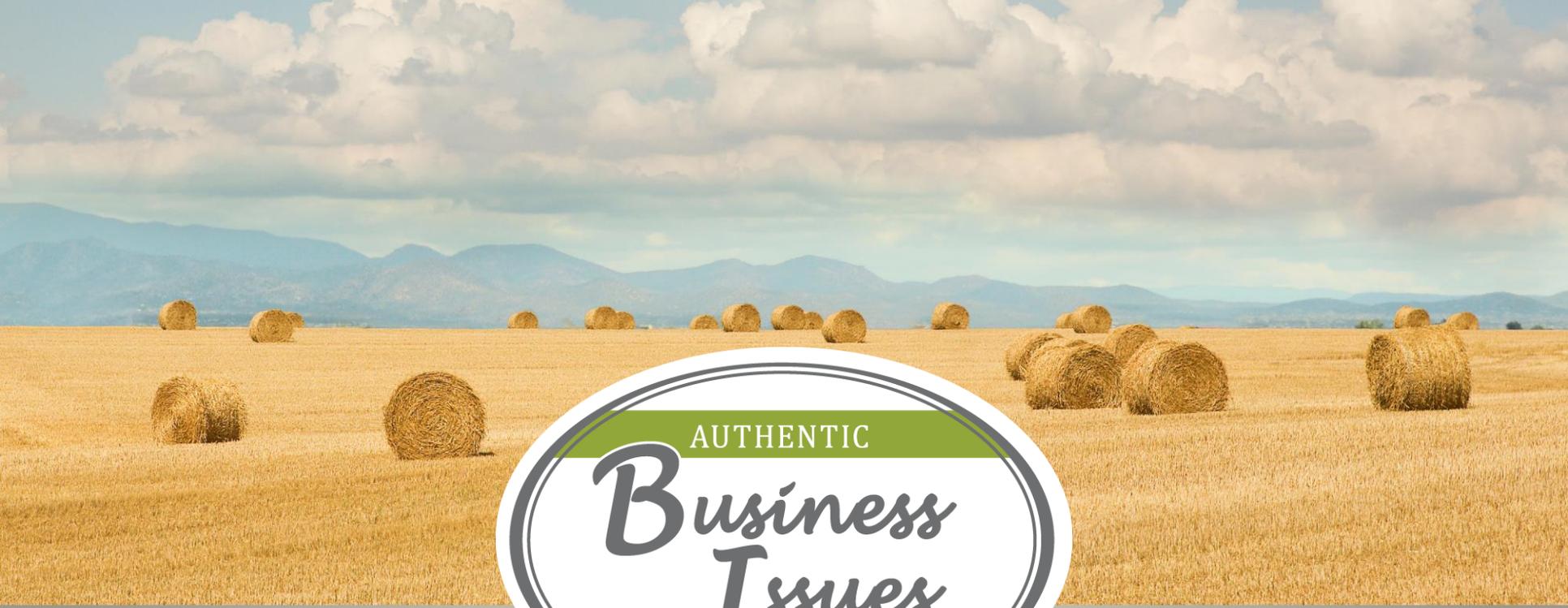
Green (95 – 133) Congratulations! Your managing conflict score is strong and suggests a high chance of a successful business transition.



Yellow (57 – 94) Caution! Your managing conflict score indicates improvement is needed to increase the chances of a successful business transition.



Red (0-56) Alert! Your managing conflict score indicates attention is needed to increase the chances of a successful business transition



AUTHENTIC

*Business
Issues*

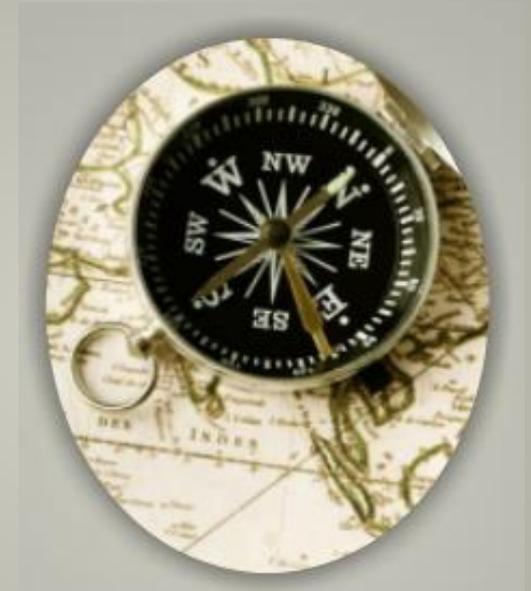
2ND

BUSINESS ISSUES

This module covers:

- FORMALIZED
MANAGEMENT

- BUSINESS
COMMUNICATIONS



FORMALIZED MANAGEMENT

Some families are hesitant to formalize the management of their farm businesses.

Yet, having formal processes in place can help the business grow and change more smoothly, prevent and manage conflicts, and reach business goals.

Formalized management includes:

- Business planning
- Implementation of a strategic management framework
- Evaluation of progress toward goals





OBSTACLES TO FORMALIZED MANAGEMENT

Lack of Trust

Difficulty Delegating

Lack of Desire

Lack of Trust

Family members may struggle with fear of giving control to other family members, in-laws, or employees. Conversely, they may feel an obligation to certain family members or employees.

Overall, families must trust (or learn to trust) each other, appreciate one another's perspectives and skills, and have faith that the process of formalizing management will help the business succeed over time.

STRATEGIC MANAGEMENT

Strategic Business Plan

Where Are We?

Answering this question involves determining the net worth of the business in addition to the strengths, weaknesses, opportunities, and threats in the current business environment.

Where are we?

**Where do we
want to go?**

**How can we
best get there?**

WHERE DO WE WANT TO GO?

Vision Statement



Mission Statement



Goals



A vision statement may be considered a picture of what the company will look like in the future. The vision statement sets the direction for business planning, but it does not indicate how the business will get there. A vision statement is an internal document used only by people within the business.



POLICIES

It is important for farm families to have written policies when transitioning the farm from one generation to the next.

**Family
Constitution**

**Legal
Documents**

**Operational
Policies**

Family Constitution

A great idea is for families to record their plans in a family constitution. This is a series of statements that describes the family's shared values and policies in relation to the business. It should codify the family's goals, management philosophy, and which family members will own and manage the business.



FORMALIZED MANAGEMENT ASSESSMENT

FORMALIZED MANAGEMENT

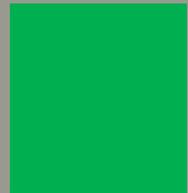
FINANCIAL STATEMENTS



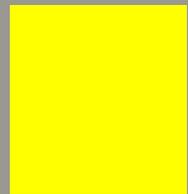
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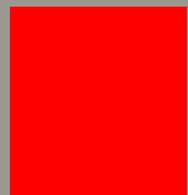
FORMALIZED MANAGEMENT ASSESSMENT



Green (215 – 301) Congratulations! Your formalized management score is strong and suggests a high chance of a successful business transition.



Yellow (129 – 214) Caution! Your formalized management score indicates improvement is needed to increase the chances of a successful business transition.



Red (0-128) Alert! Your formalized management score indicates attention is needed to increase the chances of a successful business transition.

MANAGING BUSINESS COMMUNICATIONS

Lack of effective communication among family members is the root cause of most family business failures.

Some tools that you can use to communicate about the family business include:

- Family Council Meetings
- Family Business Meetings
- Code of Conduct

There may be benefits to using an outside expert to facilitate family business meetings or at least to help get them started. Look for someone who specializes in family businesses and understands their unique dynamics.



FAMILY COUNCIL MEETINGS

- Allows all family members an opportunity to learn about the family business
- Addresses family issues that impact the business and business issues that impact the family
- Include spouses, in-laws, children, grandparents, grandchildren, etc.
- Held annually



FAMILY BUSINESS MEETINGS

- Only family members who work in the business attend
- Forum to discuss family issues including:
 - Roles and responsibilities of family members
 - Interactions between family and the business
 - Ownership of the family farm
 - Business management issues are NOT discussed in this meeting
- Opportunity to communicate with family members who are active in the business about business issues that affect the family and family issues that affect the business
- Family Business Meetings are not intended to replace regular business or management meetings





CODE OF CONDUCT

Employment Criteria

Compensation

Exit Strategies

**Conflict Resolution
Process**

**Distribution of
Profits Policies**

**Vacation/Leaves
Absence Policies**

**Loan Policies
(terms and conditions)**

Employment Criteria

The business may find it beneficial to have some procedures more formalized. Having operational procedures in a written format allows everyone to know how things are done and what the process is for resolving issues. For example, an employee manual may be helpful in managing employees. Standard operating procedures ensure consistency in how tasks are done.



BUSINESS COMMUNICATION ASSESSMENT

FAMILY COMMUNICATION

FAMILY COUNCIL MEETINGS

We conduct regular meetings to communicate with the extended family about the business on a regular basis.

We have conducted meetings to communicate with the extended family about the business, but not on a regular basis.

We do not conduct meetings to communicate with the extended family about the business.

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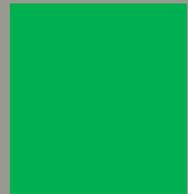
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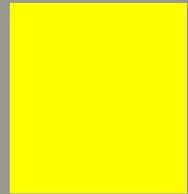
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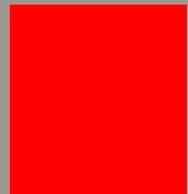
FORMALIZED MANAGEMENT ASSESSMENT



Green (45 – 63) Congratulations! Your business communication score is strong and suggests a high chance of a successful business transition.



Yellow (27 – 44) Caution! Your business communications score indicates improvement is needed to increase the chances of a successful business transition.



Red (0-26) Alert! Your business communications score indicates attention is needed to increase the chances of a successful business transition.



The
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• S U C C E S S I O N •

Planning
Process

SUCCESSION PLANNING

In this module you will:

- OWNERSHIP SUCCESSION
- MANAGEMENT SUCCESSION
- SUCCESSION PLANNING PROCESS

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



OWNERSHIP VS. MANAGEMENT SUCCESSION

Review the chart to understand the differences between these two responsibilities.

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

OWNERSHIP SUCCESSION

Potential Issues include:

The Desire of the
Founders to be Fair

Ensuring
Adequate Capital

Covering the Needs of
Other Family
Members

Selecting the
Mechanisms to Ensure
Desired Outcomes are
Achieved

The desire of the founders to be fair

This laudable objective rarely results in the intended outcome.

Each member of a family may have a different idea of what is fair.

OWNERSHIP TRANSFER

Several alternatives exist for transferring ownership of a family business

Gift



Liquidate



Sell a Portion



Do Nothing



Founders can gift shares/parts of the business or business assets to one or more individuals.

MANAGEMENT TRANSFER

Several alternatives exist for transferring management of a family business:

Appoint



Elect



Engage an Outsider



Divide and Conquer



Do Nothing



Founders could appoint a family member to be the successor. This may work well if the family member has the skills needed to fulfill the new role. If they do not, it could lead to increased tensions among other members of the family business and risk the future viability of the business.

A PROCESS FOR SUCCESSION PLANNING





SUCCESSION PLANNING PROCESS

THE SUCCESSION PLANNING PROCESS

ESTABLISH A TIMELINE

Our family business has documented a timeline for ownership and management succession.

Our family has had casual discussions about succession planning, but we have not documented any timelines.

Our family has not established a timeline for succession.

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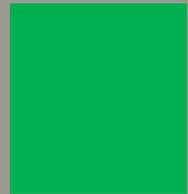
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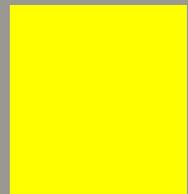
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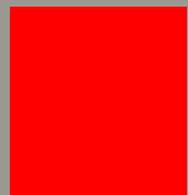
SUCCESSION PLANNING PROCESS



Green (150 – 217) Congratulations! Your succession planning score is strong and suggests a high chance of a successful business transition.



Yellow (90 – 149) Caution! Your succession planning score indicates improvement is needed to increase the chances of a successful business transition.



Red (0-89) Alert! Your succession planning score indicates attention is needed to increase the chances of a successful business transition.



3RD
WHERE DO WE
— GO —
FROM HERE



SUCCESS IN SUCCESSION





ASSESSMENT TOOL

- Have other members of your family complete the assessments you took today and compare your answers
- An electronic version of the assessments is also available.



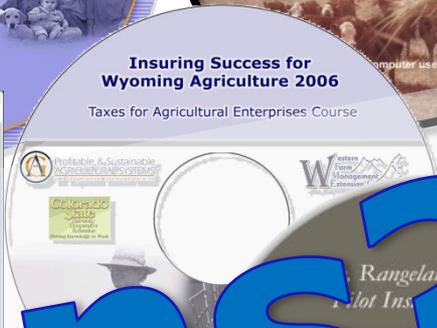
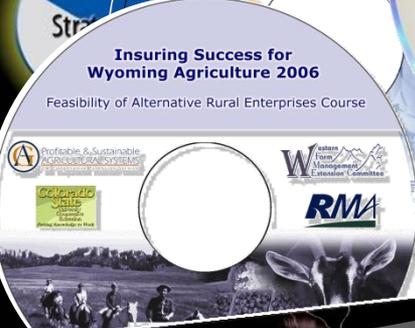
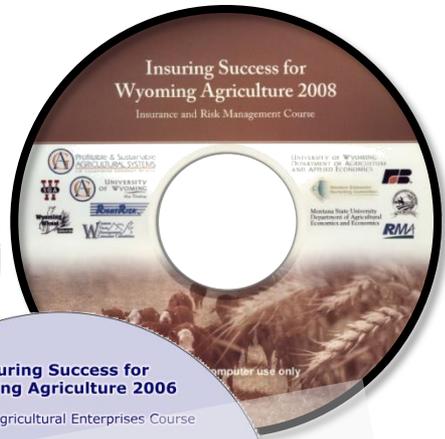
COMMUNICATION

Agree - Disagree
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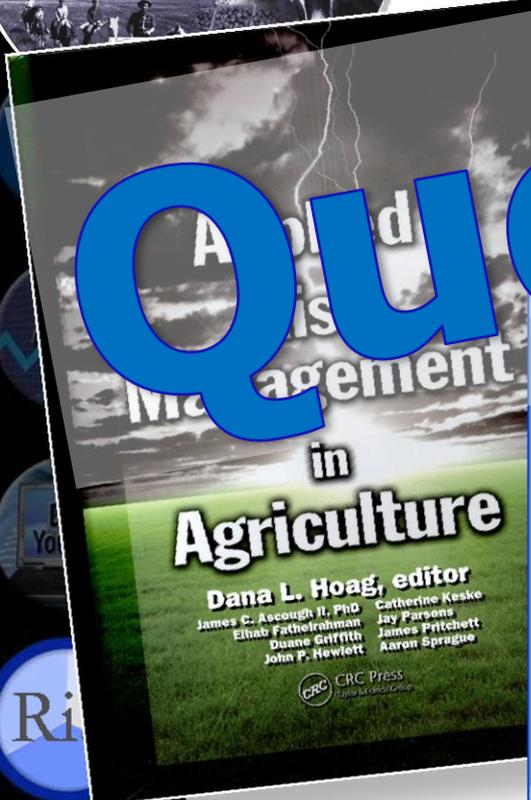
1	Our family effectively uses questioning to improve communication and information exchange.	
2	Our family continuously evaluates how well we are communicating.	
3	Our family occasionally evaluates how well we are communicating.	
4	Our family is somewhat aware of the importance of non-verbal communication.	
5	Our family provides feedback inconsistently. Sometimes it is constructive and sometimes it is destructive.	
6	Our family understands the importance of effective communication skills.	
7	Our family does not always use non-verbal communication productively.	
8	Our family does not understand the importance of effective communication skills.	
9	Our family does not listen to each other.	
10	Our family effectively uses feedback to maintain open understanding and communication between family members.	
11	Our family continuously practices new techniques to improve our communication results.	
12	Our family strives to improve our communication skills through effective listening.	
13	Our family does not use non-verbal communication productively.	
14	Our family does not use questioning to better understand each other's perspectives and ideas.	
15	Our family tries to encourage good listening, but there are some individuals that tend to dominate conversations.	
16	Our family occasionally practices new techniques to improve our communication results.	
17	Our family has tried to use questioning skills to improve our communication, with limited success.	
18	Our family uses non-verbal communication effectively to improve our communication.	
19	Our family does not support or encourage family members to improve and practice effective communication skills.	
20	Our family occasionally supports and encourages family members to improve and practice effective communication skills.	
21	Our family does not provide feedback or provides it only in destructive ways.	
22	Our family has never evaluated how well we are communicating.	

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Questions?



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