

SUB THEME: Labour Force of the Future

TITLE: MANAGEMENT SUCCESSION IN AGRICULTURE:
A Series of Three Online Courses
Addressing the Transition of Management
Responsibilities to the Next Generation

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SUB THEME: Labour Force of the Future

**MANAGEMENT SUCCESSION IN AGRICULTURE:
A Series of Three Online Courses Addressing the
Transition of Management Responsibilities to the Next Generation**

The number one goal of most rural family business owners is to transition their business to other family members—the next generation. While many programs have been developed to help families transfer ownership to the next generation, few resources are available to help with transferring management responsibilities. It is said that only a third of all family businesses successfully transition to the next generation. The reasons why are many.

This paper briefly outlines the issues inherent in the transition of management responsibilities. It also describes each of the three online courses developed to address the big-picture questions faced by rural families: 1. Where Are We? 2. Where Do We Want to Go? and 3. How Do We Get There From Here?

These courses and online tools are designed to help family business owners successfully plan and accomplish a smooth transition of business ownership, leadership, and management. The three courses are among several available to the public at no cost via the RightRisk website located at: RightRisk.org > Courses.

RightRisk is a multi-state team of educators organized to assist decision-makers throughout the world discover innovative and effective risk management solutions.

Management Transition, Succession Planning, Farm Families

Introduction

Most agricultural operations in the United States are family-owned businesses. In fact, the United States Department of Agriculture (USDA) 2012 Census of Agriculture notes that fully 86.7 percent of U.S. agricultural firms are owned by families or individuals. Most

individuals involved in business realize that some degree of risk management is key to their success. Planning for the transfer of management skills remains one of the most important aspects of managing risk for family operations; it can mean the difference between success and business failure, especially if the goal is for the business to pass on to future family generations.

The topic is difficult to seriously consider for many involved in production agriculture. It is challenging enough for most managers to think about who will receive what when they die; letting go of managerial control, while watching from the sidelines, is often much more difficult. The topic is also difficult to navigate within a family dynamic but is absolutely essential if the goal is the transition of the farm or ranch to the next generation.

RightRisk, a multi-state team of risk management educators, has designed and posted a series of online, self-study courses, supporting tools, and associated facilitator materials over the past several years. Topics of these courses range from end-of-life planning, to basic record keeping, the application of risk analytics tools, to management succession. The management succession courses include the following titles: 1. *Management Succession: Where Are We?* 2. *Management Succession: Where Do We Want to Go?* and 3. *Management Succession: How Do We Get There From Here?* Taken together, the courses are designed to help rural family businesses move from start to finish with a process for deciding how to best transfer management responsibilities, while taking into account the perspective of the various players involved.

These courses are made available to the public at no cost, as they have been developed using public funds, most notably from the USDA Risk Management Agency. As a result, readers may find these resources of value, either in application to their own operation, as a resource for clients who may be struggling with management succession issues, or as a source for material in offering educational programs on the topic to clientele.

Course One - Management Succession: Where Are We?

Course one begins by describing hindrances to planning, various interpersonal issues, and business issues that arise in succession planning. The course concludes by proposing a

succession management process and an approach to help users answer the question “Where are we in the process of succession planning.”

Hindrances to Planning the Transition

Every family has its own unique characteristics and challenges with transition issues. Production agriculture tends to have unique hurdles in this respect. Course one describes several hindrances to planning the transition that are inherent to agriculture:

* 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 of the business and are generally unwilling to even discuss passing on control to someone else. Their everyday closeness to the land, livestock, or business has them thinking that things could not be the same without their involvement.

* Fear: Fear may be another factor in the failure of many succession plans. Owners may fear retirement because they have made the business their life’s work and see no reason to quit. Many do not want to acknowledge their own mortality.

* Inability to Choose: Business owners may have difficulty choosing among children or other heirs due to differences in values, such as basing the decision on competency instead of fairness, an attempt to treat individuals equally, or due to a lack of any selection criteria. Another compounding factor is that the main purpose of a family unit is harmony and togetherness, while the main goal of the business is profitability. In some cases, it may not be profitable to bring the next generation into the business.

* Emotional Attachment to the Land: Most farmers are emotionally attached to the land that 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 seriously considered due to these emotional attachments.

* No Plans to Retire: Many full-time farmers have a very difficult time considering retirement when the time comes to move to the next stage of life. They often never expect to fully retire from farming. The reasons are many but often center around a 24/7 work ethic and a personal drive that led them into farming. Most farmers have developed a

lifelong attachment to farming and many find it hard to accept the slower pace that generally comes with retirement.

* Farming Lifestyle: Farming is a lifestyle and most people in agriculture feel it offers something non-farm life cannot match—the opportunity to live, work, and play together; live in the country; as well as to teach children responsibility, a strong work ethic, and healthy goals and values.

* No Retirement Income: Lack 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, and other improvements—throughout their careers and have had few resources to invest in retirement savings. In order to perpetuate the business, it is inadvisable to sell or otherwise liquidate the productive assets of the agricultural business.

Interpersonal Issues

Interpersonal issues spill-over into the business side of management and is unavoidable. These issues must be addressed at the outset of the succession process. In this section of the course, participants learn how to address and deal with these important issues in their family and business lives through improved communication skills. The materials outline several ways to assess sources of conflict and how to best address them.

Interpersonal issues can surface in a number of ways: For example, the next generation may have a dramatically different vision for the farm than the one held by its founders. Sibling rivalries, differences of opinion on gender roles, and failure of the founders to give up control are just a few of the other issues that can arise and are covered in the course.

Possible responses to interpersonal issues are briefly introduced in this section, including: techniques for reducing and resolving conflicts, approaches for effective communication, listening skills, suggestions for providing feedback, and mechanisms for managing family conflict.

Business Issues

A strategic management process is outlined at the start of the business issues section. Three main questions form the basis for this segment: 1) Where are you? 2) Where do you want to go? and 3) How do we best get there? This formalized management process includes discussion of proper business planning techniques, implementation of a management framework, and the setting and implementation of business goals.

Main issues in this area include: lack of clarity about the business' management procedures and practices; lack of a formalized planning process; and lack of formal communication within the family about the direction and management of the business. Readers learn about some of the more effective management and communication tools used to address these issues. They also learn how to assess how well their business uses these tools, as well as various approaches to overcome issues associated with the process, such as generational trust issues or difficulties with delegating.

The Succession Process

This segment of the course is designed to help users determine where they are in the process of succession planning. Differences between ownership and management succession are shown and discussed. Common issues that hinder the succession process are identified, including: the desire to be fair, the need to ensure adequate operating capital, meeting the needs of non-business family members, and failure to select and follow a process to ensure that the desired transition outcomes are achieved.

Mechanisms commonly considered for transfer are also briefly explored. These include gifting assets to the next generation, liquidating assets in order to divide the proceeds among family members, selling a specific portion of the business either to particular family members or to an outside interest, and the choice to take no particular action. Although this last option is often the approach adopted in order to avoid open conflict or disagreement, it leaves the next generation subject to the interpretation of state and federal inheritance laws, as well as the possibility of significant tax consequences.

A multi-step process for developing a succession plan is described. An outline for a detailed written plan is also presented, including: an executive summary, business overview, strategic plan, retirement plan, management and ownership transfer, financial plan, implementation timeline, and contingency plans.

Course One Resources

As noted, the specific emphasis of course one is to help individuals and family members identify where they are personally and what stage they believe the business is at in the process of transferring ownership and management responsibilities to the next generation. To facilitate this assessment, within each section of the course, an interactive component is offered, allowing users to respond to a series of questions before receiving a score on one of six dimensions of succession.

The resources section of the course also includes the assessment questions and scoring approach via an electronic document, as well as an electronic tool that provides for self-assessment and automatic scoring for each dimension of assessment. For example, the communication dimension offers a way for families to rate their communication abilities and, based on the scores, discover key areas that must be addressed in order to improve in this important area.

Course Two - Management Succession: Where Do We Want to Go?

Course two helps users determine their goals and objectives for succession. The course focuses on family dynamics, offering the family enterprise model, and how the family unit should be understood to better allow it to move through succession. Emphasis is on first helping the family decide where they want to go with succession planning and second on setting goals to address areas of concern or conflict that may be holding back the transition process.

Three family case studies are presented to begin the course. Each case study has its own set of issues and challenges. The authors felt this was the most effective way to involve users with the material. Users are engaged as family business managers and are asked to

help the case study families identify ways to begin making improvements and developing needed transition management skills.

Family Case Studies

The course depicts example situations for different family dynamics that can arise. All of these situations focus on the family enterprise and how the individual parts fit together in the complex family unit. Some of the most significant family dynamics that must be overcome are generational; different generations have alternative ideas on the future direction of the business and how it should operate today. Family size can be an obstacle as well. The more people involved, the more diverse will be the opinions on how to proceed.

One of the example farm families is described with three adult children who each have differing ideas of what will happen when their father retires: one who is actively involved, one who went to college to better prepare to manage the farm, and one who is not involved but expects to be treated fairly when the future of the farm is decided. This presents several unique challenges for the parents as they decide on their future retirement.

One key point, emphasized at the beginning of the process, is to communicate openly. The course has several tools to help all parties put their concerns and objectives in writing. For the example family, after several weeks of not communicating following a disagreement over the succession plan, family members began to use the tools in the course to bring things into the open. They found that, while the parents had always kept good financial records and had goals for their farm, they had not always shared them with the children. Nor had they communicated their plans for the future of the farm. This may have seemed unimportant to the parents, but it presented complex issues for the children to sort through and became barriers to communication later.

The Succession Planning Process

The next segment of the course covers a process for succession planning. A complete succession plan should include the following elements:

- * A management transition assessment (covered in course one),
- * A Strengths, Weaknesses, Opportunities, and Barriers (SWOB) analysis,
- * A set of Best Succession Management Practices (BSMPs) for the situation, and
- * An outline of Goals For Change and a plan for moving forward.

Participants learn how to use these tools to assess their own situation as well as assessing the situation for the example families, using a series of worksheets included in the course glossary. The assessment covers interpersonal issues, business issues, and succession planning issues. The SWOB analysis is a structured approach to quantify the strengths, weaknesses, opportunities and barriers for the situation.

The BSMPs are suggested by the scores calculated via the assessment process and represent steps that can move the individuals and family toward successful implementation of a plan. These cover all six of the issue areas: perspectives, communication, managing conflict, formalized management, business communication, and the succession plan. For example, a family that has not previously discussed barriers to their succession plan will need a much more extensive set of BSMPs to address their many issues, when compared with a family that has regularly communicated openly about their succession plans.

The Interpersonal Issues worksheet found in the course provides space to describe an approach for addressing each issue identified, with additional spaces to describe how issues can be worked out and addressed across the planning process. After completing this part of the course, individuals and families will be well on their way to answering the question: where do we want to go?

Course Two Resources

Resources contained in course two include: BSMP lists covering the six issue areas, blank succession plan worksheets, completed succession plan worksheets for the case study families, and more.

Course Three - Management Succession: How Do We Get There from Here?

Detailed plans are needed to navigate the many stages of a succession journey. Course three begins with a refresher on the seven stages of a management succession journey used across all three courses. The process begins with an Executive Summary and progresses through to the end with a look at Contingency Plans. Along the way, the user is guided through many of the issues and differences between the transfer of ownership and transfer of management. Several alternative approaches for successful transfers are outlined.

The second course segment—Beyond Goals For Change—begins with drafting goals for change. The worksheets and resources in this module help users think through and develop plans for accomplishing the transfer of management. It presents seven steps in a roadtrip to investigate the many required elements, including: 1) Establish a Timeline, 2) Establish a Planning Team, 3) Select the Appropriate Successor, 4) Develop a Written Plan, 5) Communicate the Plan, 6) Plan for Retirement, and 7) Enjoy the Years Ahead.

Practicing the Proposed Approach

Planning for and implementing a succession plan is not easy. Even with a solid plan in place, shifts and changes in the lives of the people involved require regular adjustments to keep those plans on course. This, coupled with the reluctance of the founding generation to discuss the details of succession with the incoming generation, make it a difficult set of topics to provide instruction for.

It might seem that the best an educator could offer is an outline for a process and worksheets to help make it happen. In many ways it is up to the family members involved to make the transition a success. The authors of the Management Succession courses, however, have attempted to use the interactive nature of the accompanying electronic materials to assist just a little further.

The third course offers three, diverse case study families with very different succession stories. Details on each family are provided. Participants are then encouraged to use the process outlined in the courses to offer advice to each family. The process for offering insights utilizes one of the planning forms developed and explained previously. After reviewing the case study information, a series of questions is posed on how the participant might suggest that the family proceed. The authors then offer an alternative,

“expert” opinion. In this way, it is hoped that the participant might not only better understand how the suggested process is intended to work, but also how they might implement that process within their own situation.

The final segment of course three briefly reviews the issues surrounding management succession. In addition, it offers a look at issues that may arise as the family begins to implement plans and transition the management responsibilities, including the need for: mentoring, developing appropriate management skills, planning for the next management transition (the fourth generation and beyond), monitoring the process, and replanning where necessary.

Recapping the Approach

The final segment of course three provides a recap of the approach recommended across the three, separate courses. The first step is to understand where in the transition process the individuals and family are by completing an assessment. This is accomplished for the six issue areas: perspectives, communication, managing conflict, formalized management, business communication, and succession plan issues. The people involved gain insights into issues needing the most immediate attention, via the outcomes of the assessment and associated scores.

The next step is to complete a SWOB analysis by evaluating the strengths, weaknesses, opportunities, and barriers to transition. This step is important where it can better inform the planning steps that follow regarding where to focus the effort and attention of everyone involved.

Once it is well understood why existing weaknesses and barriers in the current approach exist, the process moves forward to outline formal steps to address those. This involves identifying the BSMPs to adopt and which external resources may be needed to move the business toward its succession planning goals. Course two provides BSMP checklists and suggestions for addressing any gaps identified in the SWOB analysis. Suggestions to consider external resources are also offered to address any weaknesses identified.

The next recommended step has the family develop written transition goals for the changes that are needed. Building on those goals, the Roadmap for Change worksheet offers space to describe the action steps, completion dates, and assign responsibility to complete the next step.

Communicating the plan and the associated details to the successor, other family members, and stakeholders becomes the next important stage of the process. Course materials outline how this might be accomplished using worksheets and appropriate verbal communication approaches.

Planning for retirement becomes the next phase, including planning for the financial needs of the founders, how much financial support the business is realistically able to provide, and what preparations are needed to allow for retirement to begin. The last step is to enjoy the years ahead.

The steps in this approach to management transition, taken together, result in a solid transition plan that addresses many of the problematic areas often left unconsidered. However, those goals and written plans must also be monitored and adjusted as the family and business move forward to accommodate the changing needs of the people involved.

Conclusion

Resources offered with the Management Succession courses include many different tools and worksheets, most significantly the third course contains a 128-page *Management Succession Workbook*. This workbook includes the many worksheets outlined across all three courses, along with instructions for their use, the Best Succession Management Practices, and links to other resources helpful to moving the process forward.

Each course also incorporates presentation materials useful for educators interested in making their own offering of course topics to clients via promotional materials, teaching outlines, presentation slides, and various handout resources.

For more information or to access the online risk management courses, visit the RightRisk web site at <http://RightRisk.org>. Click on Courses and select: *Management Succession: Where Are We?*, *Management Succession: Where Do We Want to Go?*, or

Management Succession: How Do We Get There From Here? from the many courses available. RightRisk.org offers numerous estate planning and management succession tools and resources – helpful no matter what stage the individuals may be at in the transition process.