

# Chapter 4

## Is It Time?



“The most difficult thing is the decision to act.  
The rest is tenacity.”

**Amelia Earhart**

# STEPS TOWARD TRANSITION

## How to know when to pass on the operation to the next generation.

**M**ost family business owners have an idea of the outcome they would most like to see as they consider a generational transfer. They want:

- to leave a thriving business.
- a strong leader to assume control.
- well-handled capital management.
- a retirement option date with a plan for implementation.
- an estate plan that minimizes costs and maximizes transfer value.

However, for a self-made, successful business founder, asking for assistance may be too uncomfortable. Rarely will an owner ask the question: “What should I do about succession?”

Most owners hesitate to seek guidance, possibly to avoid the perceived embarrassment of their own naïveté or the risk that anything they say might seem like some kind of commitment. Some owners go so far as to believe that seeking succession planning guidance may be perceived as a signal of financial trouble or an imminent ownership change. They imagine that if word ever gets out, customers, bankers and employees will assume the worst and turn away from or quit the business.

**WITH THE FUTURE IN MIND.** Actually, quite the opposite is true. A confident business owner knows that succession is a natural progression for the business. A truly successful business must be designed to transcend the daily involvement of the owner.

Business ownership is about seeking a reward above and beyond the norm found in the corporate world. Part of that reward is ensuring the strength and endurance of the business. In order to do that, the business, the family and the owner must be prepared through advanced planning and preparation.





The preliminary plan includes:

- a cash flow/financial analysis for each active family member.
- recommendations related to ownership transition, leadership development, estate planning and financial security.
- a written summary of your advisers findings, recommendations, corrections and supporting documentation.

**4. FINAL PLAN DESIGN.** A final plan is drafted based on the results of the preliminary plan, suggestions of the family, continuing research and counsel from the planning team.

Each plan may incorporate:

- recommendations for ownership transition, leadership development, estate planning and financial security.
- supporting rationale and explanatory information to support recommendations.
- an implementation schedule with actionable steps to achieve succession goals.

**5. IMPLEMENTATION.** Implementation is the process of creating the legal documents, writing the financial instruments, adopting the accounting practices and learning the practicalities of how to be a leader.

Implementation may include:

- assigning, following up and reviewing legal, accounting, financial and leadership recommendations.
- working with professional advisers to ensure compliance with the plan.
- assisting the advisory team to ensure timely implementation.

**6. ANNUAL REVIEW.** A succession plan must remain fluid to ensure successful results. It must adapt to the changing legislative landscape, business environment, societal structures and familial relationships. It must be

applicable to a growing operation and provide room for future opportunities.

Annual reviews include:

- evaluating succession planning principles, methods and techniques.
- monitoring related components of the succession solution plan.
- renewal of family succession objectives, progress and corrective actions.
- responding to questions and concerns.

## Now or Later?

Not sure if you're ready to pass on the operation to the next generation? See if answering the following questions gives you some insight:

1. Is your business positioned for growth and development beyond the current owner?
2. Do you have an option date and a plan for achieving your retirement objectives?
3. Are you, your family, your associates, your suppliers, your customers and your banker certain that your business will continue through a generational transfer?
4. Do you have a financial plan in place for your business in case you don't wake up tomorrow?
5. Do you have a trusted resource to guide financial decisions consistent with your wants and needs?
6. What have you done about succession planning?

## CHAPTER 4 EXERCISE

# SUCCESSION PLANNING SELF-ASSESSMENT

As your family begins to consider succession planning objectives, these 20 statements will help to identify key priorities and potential first steps.

Please enter the appropriate number in the right-hand column.

**5** Agree   **4** Mostly Agree   **3** Neither Agree/Disagree   **2** Mostly Disagree   **1** Disagree

- |  |                       |
|--|-----------------------|
| Maintaining family ownership of the farm is important.   | <input type="radio"/> |
| Only lineal descendants should be allowed to own the family operation.   | <input type="radio"/> |
| Ownership is a privilege, not an entitlement.  | <input type="radio"/> |
| The current operation can support additional families.   | <input type="radio"/> |
| The current operation is run like a business with standard operating procedures and a management structure.                | <input type="radio"/> |
| The family has shared succession intentions but not in a written format.   | <input type="radio"/> |
| The owner(s) can retire without converting business equity to cash.  | <input type="radio"/> |
| Business success is more important than family harmony.  | <input type="radio"/> |
| Active family members should receive ownership in proportion to their commitment (blood, sweat and tears).                 | <input type="radio"/> |
| Active family members should receive adequate compensation for their time, commitment and loyalty to the family operation. | <input type="radio"/> |
| Disagreements among family members rarely affect the work environment.   | <input type="radio"/> |
| All active family members share a common goal for operational growth and development.                                      | <input type="radio"/> |
| The next generation has a strong work ethic.   | <input type="radio"/> |
| The next generation works as owners.   | <input type="radio"/> |
| The senior generation can allow the next generation to make mistakes and learn from experience.                            | <input type="radio"/> |

There is a written plan for operational growth and development.

The farming operation provides financial security.

The family recognizes and acknowledges opposing objectives between active and inactive owners.

Regular management meetings are used to manage the operation.

The family communication style is open and candid.

**TOTAL SCORE:**

## INTERPRETING YOUR SCORE

- 85 – 100** This score indicates a willingness to make the commitments necessary for transition. It may also point to overconfidence and/or a lack of empathy for family tension.
- 70 – 84** This score reflects a healthy respect for the complexity of succession planning, yet maintains a realistic concern for the family's ability to create a positive outcome.
- 55 – 69** This score demonstrates humility and a realistic expectation regarding personal and family readiness. The family may experience some significant breakthroughs and continual progress in an effort to create a lasting legacy.
- 40 – 54** This score indicates a need for open communication regarding succession intentions. Plan a family meeting to discuss goals related to succession for the owner, the family and the farm.
- < 39** This score points to multiple concerns; the succession planning process may be premature at this time. Additional assessments, personal counsel and specific development plans may help to improve the situation.

You can also find this tool at  
[www.FarmJournalLegacyProject.com](http://www.FarmJournalLegacyProject.com).

