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## Constructing a Succession Plan

Joe Kluender Farm Family Dynamics, LLC

## Life Story

- ✓ Operated family farm for 23 years
  - Third generation
- ✓ Transition to neighbor
- ✓ Eleven years of family business consulting
- ✓ Nine years under Andy Biebl, national ag tax expert



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[www.farmfamilydynamics.com](http://www.farmfamilydynamics.com)

## Biosketch

- ✓ President, Farm Family Dynamics, LLC
- ✓ Director, American Society of Agricultural Consultants (ASAC)
- ✓ Certificate in Family Business Advising, (FFI)
- ✓ Member, Upper Midwest Family Advisory Council
- ✓ Founding Member, familybusiness.ag


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## What do I do?

- ✓ Exit strategies for retiring farmers
- ✓ Estate plans; that include non-active stakeholders
- ✓ Transition plans that preserve the family farm
- ✓ Organization structure for farms with multiple owners



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## Peer Group Facilitator


- ✓ Facilitator for Farm Journal's Top Producer Executive Network™ (TPEN)
- ✓ Facilitate (4) peer groups in the upper Midwest



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## Agenda

- ✓ Taking inventory of your current personal and business situation
- ✓ Identifying issues where action is needed
- ✓ Critical conversations with key stakeholders



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## Poll

- ✓ G-6 or more
- ✓ G-5 Great-great grandparents
- ✓ G-4 Great grandparents started farm
- ✓ G-3 Grandparents started farm
- ✓ G-2 Parents started farm
- ✓ G-1 Entrepreneur



## Family Business Ownership

- ✓ 90% of US businesses are owned and managed by families:
  - ✓ Cargill
  - ✓ Local hardware store
  - ✓ Manufacturing
  - ✓ Farms
- ✓ Only 30% survive into the 2nd generation
- ✓ Only 12% survive into the 3rd generation



- Jane Hilbert-Davis and W. Gibb Dyer, Jr.,  
Consulting to Family Businesses

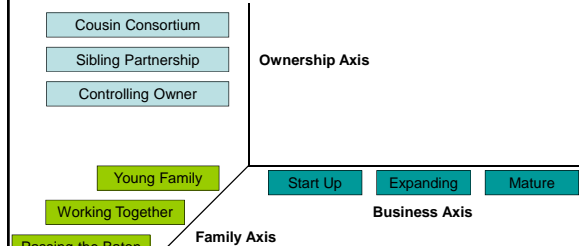
## Three Stages of Family Business

from John Ward's *Perpetuating the Family Business*

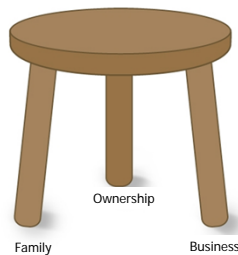
- ✓ Stage I – Owner-Managed
- ✓ Stage II – Sibling Partnership
- ✓ Stage III – Cousin Collaboration
- ✓ Cold hard facts
  - 30 years ago – 5-10% run by siblings
  - Now: 50% owned/run by brother/sister groups



## Three Dimensions -Family Business



## THREE-LEGGED STOOL CONCEPT



## Change Within the Three Dimensions

- ✓ Ownership changes less frequently, but it is the most dramatic
- ✓ Family changes continuously and is the most emotional
- ✓ Business change is erratic and becomes more complex as it moves from stage to stage



## Succession

- ✓ Is the ultimate test of a family business



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## Proverbial wisdom.....

"It will never work ... these family deals never last!"

## Destiny ... or Choice?



## Table Exercise: Succession Planning Self-Assessment

- ✓ Page 27 – Legacy Project Workbook
- ✓ Answer questions with 1-5 score
- ✓ Don't worry about totaling your score – not all questions are a "score able" with a number



## Step # 1 – Transition Step # 1

- ✓ Take inventory of current business
  - Formal Organizational Structure
- ✓ Put it on paper!      "Executive Summary"
  - For owners
  - For potential successors
  - For advisory team .... "*why these guys?*"
- ✓ Define where you want to go in the future



## Basic Succession Planning Questions

- ✓ What is our mission, vision and core values?
- ✓ Needs of the business for capital (now & future)?
- ✓ Needs of the business for management and staff (now and future)?
- ✓ Capacity to support current and future families?

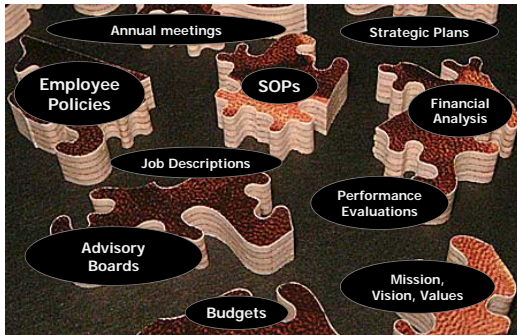


## Transitioning Wealth (Ownership & Financial Control)

- ✓ Optimal entity structures to facilitate goals?
- ✓ Buyout agreements, gifting, wills, estate plans, etc.?
- ✓ Risk management (insurance) tools needed to insure liquidity and facilitate transfers?



### Describe how your business is managed TODAY



Successors need to know what they're getting into.

### What are you passing on?

- ✓ Ownership
- ✓ Working Career Opportunity
- ✓ Values

### Family Business Ownership

✓ “Families that place their valuables ahead of their values when they do planning will probably end up with neither”

» *Beating the Midas Curse*, Perry L. Cochell & Rod Zeeb



### Mission and Core Value Statements

- ✓ Only 33% of ag businesses define this!
- ✓ Consequences: Team can't agree/focus on:
  - Mission – business product or service, primary customer & key objective
  - Vision – end point if you succeed
  - Values & Philosophy – ground rules
- ✓ Put in writing and post visibly on farm



### Mission Statement Example:

Produce high quality grain and livestock assuring:

- ✓ A fair rate of return on invested resources
- ✓ safe and fulfilling environment to work and live
- ✓ sustainable income for future generations

See page 16 in workbook



### Our Vision

*Our Mission Will Be Accomplished When...*

- ✓ Complete careers with financial security and value our family and business associations
  - ✓ The business grows, adapts, and remains financially viable
  - ✓ Capable successors are carrying on our heritage
- What's your exit plan?** ← Not everybody's goal

## Common Conflicts – Core Values

- ✓ Always be leading edge...
  - "If ain't broke, don't fix it"
- ✓ Maximize profits (live for today)
  - Maximize long-term economic and environmental sustainability (live for tomorrow)
- ✓ God & family first
  - Business first; God and family can wait
- ✓ Professionalism always expected
  - Professionalism OK when I'm "in the mood"
- ✓ Everybody should be equal
  - Pay and position should be based on skills and performance



## SWOT Analysis

- ✓ **Strength** of your operation
- ✓ **Weakness** of your operation
- ✓ **Opportunities** outside of your operation
- ✓ **Threats** from outside of your operation



## Time for a Break!!!



## Hidden Issues of Working Together



Conflict

Communication  
Trust  
Commitment  
Transparency  
Organization



## Why Farmers Don't Have Time To FARM!!!

- ✓ Production Planning
- ✓ Marketing Planning
- ✓ Financial Planning
- ✓ Contingency Planning
- ✓ Strategic Planning
- ✓ Manpower Planning
- ✓ Succession Planning
- ✓ Retirement Planning
- ✓ Family Issues

## "Simplify" Planning and Understand "Inter-Relationships"

- ✓ **Operational** or annual planning
  - Production Plan
  - Marketing Plan
  - Capital purchases and sales
  - Debt financing arrangements
- ✓ **Strategic** or long range planning



## Goals– Succession Planning *What are you reaching for?*

- ✓ Clarity is the Antidote for Anxiety
  - ✓ Get them on paper – don't need to be fancy
  - ✓ Personal & Business
  - ✓ Identifies stakeholders intentions & wishes
  - ✓ Dispels myths and erroneous assumptions
  - ✓ Makes decisions easier

## Action Plans – Succession Planning *What are you reaching for?*

- ✓ Action plans
  - ✓ What, When, Who
  - ✓ Budgets, Cash flows
  - ✓ Resources required
  - ✓ Feasibility

### *Consequences...*

## Lack of Professional Planning Approach

- ✓ Unexpected outcomes
- ✓ Outdated strategies – can't compete or exploit opportunities
- ✓ Don't optimize decisions – purchase vs. rent vs. hire/share
- ✓ Anxiety & Stress destroy business teamwork & extended family ...
  - **ESPECIALLY TRUE IN SUCCESSION!**

## Who should be on bus, and where do they sit? Good to Great by Jim Collins

- ✓ How are you organized today?
- ✓ What will organization look after transition?
- ✓ Criteria be for filling "vacant slots"?
  - Skills, abilities, passion vs. "entitlement"
- ✓ How do you pass the baton?
  - Duty statements, timetables for transition, apprenticeships, OJ training
- ✓ How does old guard get out of the way?
  - Board chairman vs. CEO ("boss")

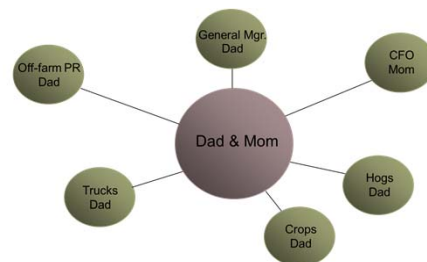


## Organization Questions

- ✓ Are roles divided?
- ✓ Is reporting and accountability structure defined?
  - Now
  - After transition
- ✓ Do key members have written job descriptions?

**40% have this in place**

## Organizational Structure



## Table Exercise: Organization Structure & Players

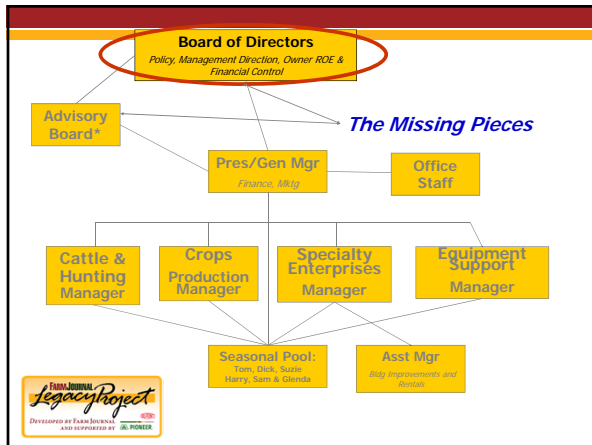
- ✓ Turn to Page 37 to draw picture
- ✓ Relates to Question #3 on page 35
  - Draw flowchart of members "active" in operation
  - List title or area of responsibility for each
  - Include board members/advisors, if applicable
- ✓ Extra Credit: Draw chart 5-10 years from now



*as an all accounts of each other in a partnership*

*Duties: None of the partners really 'reports' to the others. It seems if one is given an 'assignment' another just picks it up and completes the job.*

**What does your organizational structure look like?**



**Is career path apparent?**

CEO

Assistant Manager

Grunt

## Why Write Job Descriptions?

- ✓ Pinpoints accountability for team members
- ✓ New "hires" – focus on skills and qualifications  
*"I'm family...I'm owed a spot here."*  
vs. **Do we have a vacancy to fill?**
- ✓ Basis for performance appraisal
- ✓ Retirement transition tool
  - Helps exiting principal focus on key decision areas
  - Checklist for training and delegation strategy
    - 56 DUTIES listed in Guidebook



## Role of Board of Directors

- ✓ Setting Policies
- ✓ Determining strategic direction
- ✓ Hiring, directing, evaluation & compensating management
- ✓ Maintaining financial control
  - reviewing performance
  - exercising "due diligence"



## Advisors Can Play Useful Roles

- ✓ Defining **board roles**
- ✓ Setting **compensation** – board, CEO, “Blood family”
- ✓ **Strategic planning**
- ✓ **Ownership transfers** (capital injections/withdrawals)
- ✓ Getting **incompatible players** “off the bus”
- ✓ **Champion** for “disenfranchised” owners
- ✓ **Guiding financial analysis** discussions
- ✓ **Running effective meetings**—board, family council
- ✓ **Transitioning management** duties
- ✓ Sounding board for **family conflict issues**



## Job Description – Chairman of Board

- ✓ Policy review and refinement
- ✓ Investment analysis
- ✓ Strategic planning
- ✓ Hiring, coaching, grooming successors
- ✓ Performance review and feedback
- ✓ “Assisting” and “advising” successors in day-to-day operations without telling them what to do



## Challenge: Mentoring vs Micro-managing

- ✓ Making the transition from...
  - Boss/CEO to Board Chairman
- ✓ “Graduating”
  - From Parent
  - To supervisor, manager, mentor, delegator, enabler, groomer
  - Tools: tone of voice, words, body language



## Selecting the Successor

- ✓ Does process differ if DAD:
  - is involved in the picture?
  - not around to influence the process?
- ✓ Does it make a difference:
  - who is older?
  - who has more tenure?
  - whether candidate is male or female?
  - who has the most ownership?



## POSITION: President/General Manager

### Administrative Responsibilities

- Coordinate operational & strategic planning
- Organize work force
- Staff (recruit, hire, train) and assign responsibilities (job descriptions)
- Coordinate workflow
- Administer communication, evaluation and control systems
- Execute contracts
- Provide information and policy input to board of directors



Farm Management role usually combines with technical role.

## Avoid “Bossing Tendency” Define Attributes of Ideal Manager

- ✓ Leader...not doer
- ✓ Empowers people...doesn't micro-manage workload
- ✓ Focuses on people, resources, information, technology
- ✓ Promotes teamwork, positive thinking and professionalism
- ✓ Willing to be accountable to the “board of directors”



## Policies & Practices

- ✓ Do policies and SOPs attract & retain successors?

... or

- ✓ Chase them away?



## Policies & Practices

- ✓ Policy before the need



## Are Policies Written Down? 36% do! ...Common "Land Mines"

- |                                     |                                   |
|-------------------------------------|-----------------------------------|
| ✓ Housing                           | ✓ Family Employment Policy        |
| ✓ Company vehicles                  | ✓ Medical benefits                |
| ✓ Room and board                    | ✓ Retirement plans/pensions       |
| ✓ Expense accounts                  | ✓ Business benefit continuation   |
| ✓ Setting compensation              | ✓ Workdays and holidays           |
| ✓ Withdrawals of capital            | ✓ Vacations, sick, business leave |
| ✓ Insider/inter-entity transactions | ✓ Buyout Understandings           |
|                                     | ✓ Outside activities              |

Ask each member of team to write down understandings...then compare notes!



## Housing, Utilities and Meals



- ✓ Housing provided by business or individual?
- ✓ Who pays for: maintenance, insurance, electricity and phone service?
- ✓ Meals on work premises

## Salaries, Wages & Bonuses

- ✓ Officers / Partners
  - Monthly draws
  - Annual salaries, bonuses
- ✓ Full & Part-time help
  - Who determines pay scale?
  - What is the pay cycle?
  - When is a bonus appropriate?



## Common Sins - Compensation

- ✓ inequity between off farm kids & "insiders"
- ✓ bosses kids get preferential treatment
- ✓ using labor as source of operating credit
- ➡ ✓ confusing compensation with estate planning
- ✓ no differentiation in pay scale
- ➡ ✓ inconsistent allocation of earnings to Labor/Mgmt vs. Owners



## Capital Contributions, Withdrawals

... 22% have policy in place.

- ✓ Who is welcome to invest in farm/ranch?
- ✓ Should everyone be "equal?"
- ✓ Minimum capital to leave invested? *"Can I ever get my money out?"*
- ✓ Revenue sharing tied to ownership ratios?
- ✓ Compensation for excess balances?
- ✓ Whose monitoring capital balance compliance with legal agreements?



## Planning References – Legacy Workbook

- ✓ See pages 32–36 Building Business Plans



## Time for a Break!!!



## Communications Systems

...Do you:

- ✓ Agree on rules for communicating professionally?
- ✓ Invest in understanding personality styles? **Poll Group**
- ✓ Share records openly? **40%**
- ✓ Hold Regular Meetings – Staff, Mgmt, Owners, Family? **42%**
- ✓ Documentation key understandings? **31%**

## "Meeting culture" in your business?

- ✓ Staff meetings
- ✓ Management meetings
- ✓ Owner board meetings
- ✓ Advisory board meetings
- ✓ Family meetings



## Communication challenges - Family Farm Businesses

- ✓ Don't think business rules apply
- ✓ Family status trumps business roles
- ✓ Don't consider impact of personality style differences
  
- ✓ What you said --What he/she heard



**Key Elements:**

### Management Control System

- ✓ Comprehensive Record Systems
- ✓ Regular Performance Reviews – Individual & Farm Business
- ✓ Ongoing Training & Professional Development
- ✓ Use of Outside Advisers
- ✓ Good audit and internal control systems



### What gauges do we monitor?

- Seeding Rate
- Temperature
- Oil Pressure
- Acres/Hour
- Gallons/Acre



- Working Capital
- Debt/Asset Ratios
- ROE & ROA
- Accrual Net Income
- Cap Debt Rep Capacity
- Unit Cost of Production



### Sharing Financials with Successors

- ✓ Have you done this?
  - If yes, how do it go?
  - If no, what are your fears?
- ✓ Successful attempts...
  - Ag lender, facilitator, family business advisor, acct.

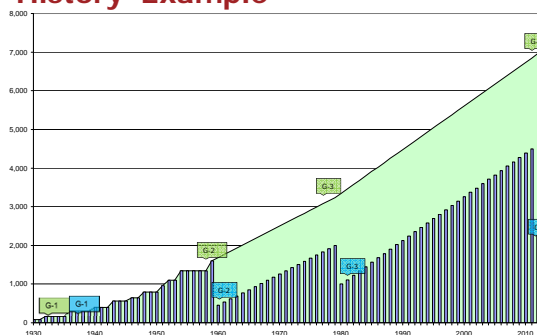


### Sharing History with Successors

- ✓ Do you have this written?
  - Key events and timelines that shaped your business journey
  - Ownership evolution
  - Key players that have come and gone
  - "skeletons"
- ✓ Value in succession planning process
  - Defining your "legacy"
  - Briefing document for outsiders



### History Example



### Recap



## How Do We Avoid Tragedies?

...put it in writing!

- ✓ Define vision, values
- ✓ Put right people with right talents in right seats
- ✓ Reduce retirement fear for patriarchs & groom successors
- ✓ Set goals & develop strategy to reach targets
- ✓ Implement professionally: engage advisory team & peer networks
- ✓ Commit to accountability

## Where to Start? ...Concerned Parent

- ✓ **Appoint Transition Coordinator**
- ✓ Map out "transition steps" and "management process" needing clarity
- ✓ 3 D's – Discuss, decide, and document
- ✓ Organize information – (3-Ring Binder)
- ✓ Join peer networks; form advisory teams
- ✓ Attend management training
  - TEPAP, Harvard AgBus Seminar, Top Prod.

## Who can help?

- ✓ Tap "qualified/certified" facilitators and resources
  - Family Business Institute
  - Farm Journal Legacy Project
  - Succession planning websites
  
- ✓ Guidebook/DVD–Wittman



### Farm Management Proficiency Test

This test is designed to highlight the key proficiencies considered essential to successfully manage a family farm business. Farmers, teachers, advisers, and bankers can use this test to assess strengths and weaknesses, develop curriculum and implement training and self-improvement programs. (Note: This test does not address basic production management proficiencies.)

Key Proficiency Areas: (Place an "X" in the column that applies.)	In Place Now	Working On It	Need It	Don't Need It
<b>Management System/Personnel Administration</b>				
1. Mission, Vision and Core Values are defined for the business.				
2. Farm History is documented (incl. narrative & financial trends).				
3. Goals and Objectives (Long and Short Range) are defined.				
4. Operating Plan addresses Production, Marketing, Financing, and Capital Purchases/Sales Plan and is compiled into an annual Cashflow Budget Projection.				
5. Strategic Plan identifies "Strategic Issues" for the business, and, at least annually, updates strategies and action plans for achieving strategic goals. (* Estate planning succession, business structuring, expansion, diversification, in-sourcing vs. outsourcing activities, value added, equipment and facility replacement, enterprise mix, financial capitalization, stewardship, strategic alliances, tillage strategies)				
6. Responsibility is clearly divided and each partner and employee has a job description outlining duties, responsibilities & authorities.				
7. Personnel policies* are written and communicated to employees and spouses (* Including: housing, meals on premises & utilities, medical life disability insurance, buyouts, inter-entity transactions, vehicle fuel, insurance and maintenance, retirement plans, vacation and sick leave, setting compensation, business expense reimbursement, etc.)				
8. Standard Operating Procedures are documented for repetitive				

Take inventory...

## Where are we in agenda?

- ✓ What we just did:
  - Took inventory of, issues, and options to consider about business we hope to pass on
- ✓ Next up:
  - Legal issues discussion
  - Tax and Estate Planning issues discussion
  - Execution and Implementation – Actionable Steps
  - Wrap Q & A

