

Successor Development and Management Transition on Family Farms and Ranches

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It is an economic reality that for your business to succeed and continue successfully beyond you, management must learn, adapt and continuously improve at the rate set by the leading edge of the competition and not by your comfort zone. Otherwise, you'll be falling behind even if you're moving ahead.

The CEO's Job

Today's commercial farms are becoming larger, more capital intensive, more regulated and facing the need for more specialized management expertise. In the past, it has been sufficient in many cases to have one person handling most of the business management decisions with help from a bookkeeper and good operations employees. That isn't going to cut it as the rate of change and level of market volatility increases.

A CEO as opposed to a general manager, has four main duties:

- Setting strategy and vision
- Building the company culture
- Team building and picking the right people
- Capital allocation

He/she has to be a leader, not just an operations manager. The CEO has to be more of an environmental scanner and the business's contact with the outside world. John Paul Getty was quoted as saying "It doesn't make much difference how smart an executive is, or how much knowledge or experience he possesses; if he is unable to achieve results through people, he is worthless as an executive."

Initial Heroic Assumptions

- The successor has been selected
- They want the job and their family supports the decision
- The successor is capable of growing into the position
- The business can afford them
- The current CEO has their estate and retirement plans in place, they have been communicated to the family, and are in the process of being funded

If your potential successor, is still in high school encourage them to go to college and major in agriculture, business or engineering. Do at least one, maybe two internships. If possible, after graduating work off the farm for 3-5 years before coming back. They should earn at least one real promotion, not just a change in title. They'll get to experience different management styles, decide for sure if farming is the career they want to pursue and work in an environment where they aren't the owner son or daughter.

Side Note: Most College Undergraduates are Not Taking or Being Taught Many of the Subjects That Are Going to be Important after they Graduate

- Human resource management and development
- Operations management and process improvement
- Alternative business arrangements
- Entrepreneurship
- Macro-domestic and global (geo-politics)
- How the political process actually works and the ability to separate reality from rhetoric
- Practical cost/managerial accounting
- Negotiation skills
- Risk management strategies and decision tools
- Creative thinking and innovation

“Sixty percent of failed management transitions are due to unresolved family conflicts and communication issues, and twenty-five percent are due to poorly prepared successors.”

Mark Voeller, Family Business Consultant and
Author of *Exit Right*

“Successful management transitions don’t just happen...they are planned.”

Dr. David Kohl, Virginia Tech

Ten Best Practices of Firms that Have Completed Successful Management Transitions

1. An assessment of the needs of the business, not just for now, but for the future.
2. An objective assessment of the strengths and weaknesses of the current CEO.
3. An objective assessment of the strengths and weaknesses of the successor.
4. Open, honest and mature communication.
5. The creation of a management development plan that addresses experience, responsibility, training, and honest/objective evaluation and feedback.

Ten Best Practices of Firms that Have Completed Successful Management Transitions (cont.)

6. Planned experience, exposure and networking opportunities for the successor, not just outside the business, but also outside the industry.
7. Development of a common vision for the business.
8. An ongoing delegation of responsibility and authority, with a specific timeline.
9. Involvement of the successor in the development of the business plan and the strategic decision making process.
10. Implementation of a plan for what the current CEO is going to do next.

5 Common Communication and Relationship Problems

1. Dictatorship
2. Secrecy
3. Inability or unwillingness to admit to being wrong
4. Unresolved conflict
5. Not fighting fairly

The best CEOs work harder at communication.

- Drucker quote...
 - One of the biggest roadblocks to progress is secrecy.
- Buy-in and commitment require a clear understanding, a shared vision and a sense of ownership:
 - Where is the business headed?
 - How does it plan to get there?
 - What is my role?
 - What's in it for me?
- Employees and family members want and need to know:
 - What are they expected to do?
 - Why are they doing it?
 - How are they doing?
 - How can they improve?
- If a leader can't get his message across clearly and motivate other to act on it, then having a message doesn't matter.

Developing Strategic Thinking Skills

- Strategic management is about anticipating, adapting to, driving and capitalizing on change.
- Gretsky quote
- Best practices
 - Timing
 - What if scenarios and sensitivity analysis
 - Monitoring and analysis
 - Multiple perspectives
 - The 80:20 rule
 - Autopsies
 - Negotiation skills

Developing Strategic Thinking Skills (Continued)

- Only one-third of family businesses have a strategic plan
 - Requires sharing information
 - Responding to ideas of others and defending own ideas
 - Commitment to the plan versus keeping options open and close to the vest
- Only one-third of those ever implement the plan
- The most successful businesses and those that have experienced the smoothest management transitions actually have three plans:
 - A long term strategic plan
 - A detailed business plan
 - Short term contingency plans

“Don’t be afraid to ask dumb questions, they’re more easily handled than dumb mistakes.”

John Baker

Director of the Beginning Farmer Center
and Iowa Crisis Hotline

Gaining an Outside Perspective

- Need to see how the rest of the world operates
- Jack Welch quotes regarding competitive advantage and learning organizations
- Work elsewhere entry requirements
- Internships and swaps
- Continuing education

Gaining an Outside Perspective (cont.)

Peer Advisory Groups – CEO and successor groups

- Purpose and objective
- Structure and composition
- Guidelines and requirements for success

Gaining an Outside Perspective (cont.)

Advantages of peer advisory groups

- Multiple vantage points and different perspectives
- Insights into and strategies for dealing with CEO:successor conflicts and differing priorities
- Sounding Board
- Feedback
- Benchmarking

Gaining an Outside Perspective (cont.)

Advantages of peer advisory groups (cont.)

- Information access
- Drawing on different strengths and experiences and compensating for weaknesses
- Needs based training
- Accountability
- Uncovering joint business arrangements
- Overcome isolation
- Emotional support
- Pushing out of comfort zones

Developing a Common Vision

- I encourage CEOs and successors to independently write out their thoughts in response to the following questions, and then discuss:
 - Core Values
 - What is important to me?
 - What is acceptable?
 - What is not acceptable?
 - Vision
 - What does my future for the business look like?
 - What do I want from the business?
 - What do I hope will happen?
 - What am I afraid might happen?
 - Mission
 - What is the purpose of the business?
 - What am I here?

Developing a Common Vision (cont.)

- Goals
 - What do I want the business to accomplish?
 - What do I want to do or achieve personally?
 - What sacrifices am I willing to make to make it happen?
- Objectives
 - How will I measure both the business's and my own performance and progress?
- Strategies
 - What is my plan or approach for accomplishing the goals I have set out?
- Tactics
 - How do I propose to implement these strategies?

Constructive and Effective Performance Evaluation

- Traditional performance appraisal drawbacks
- The negotiated performance appraisal approach
 - A coaching tool
 - Promotes two-way communication
 - Provides feedback to both the CEO and the successor
 - Puts the burden of analysis on both parties
 - Help clarify what needs to be done

Constructive and Effective Performance Evaluation (cont.)

- Requires two lists to be prepared prior to the review
 - One by the CEO
 - One by the successor
- CEO's list
 - Where is the successor performing well
 - Where have they seen improvement
 - Where would they like to see improvement
- Successor's list
 - Where do they believe they have performed well
 - Where do they think they have improved
 - Where do they think the CEO would like to see improvement
 - What would they like to see the CEO do differently to help them become more effective

Constructive and Effective Performance Evaluation (cont.)

- Performance review session focus
 - Coaching and planning
 - Recognizing successor's strong points
 - Laying out specific steps for improvement to occur
 - Setting realistic goals
 - Solving problems that are identified
- Addresses two basic stumbling blocks to effective evaluations
 - If a person knows their weaknesses, they generally prefer to bring them up themselves
 - It helps the CEO identify ways they can be more effective in helping the successor develop