



Enterprising Rural Families™

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TIP OF THE MONTH

ACTION LEARNING: a deliberately organized method for developing attitudes, knowledge, skills developed by Revan (1987).

1) **Project/Problem**—a real world problem selected in consultation with the family business.

2) **Action Learning Teams**—both an individual and interactive process—advisory councils, boards of directors, family management team, business management organization, professional business support groups.

3) **Learning cycle**—steps: act, observe & reflect, generalize, plan.

4) **Reflection Tools**—learning logs, journals, PDAs, tape recorders, talking with friends.

5) **Learning Equation**—learning occurs most effectively when questions flowing from experiences combine with attained knowledge from various sources.

6) **Mentor**—learning in the real world often requires professional as well as emotional support.

Succession Planning

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Succession planning is a thorny issue – not because the plans can be complex, but because it raises so many questions that need to have answers. And these answers come from people whose feelings might easily be hurt.

In our work here at the University of Wyoming, where to start with succession planning is the question that we often help people answer first. Do we start with talking to a lawyer? Sort out some estate plan documents? Identify the successor? Design a compensation package? Give the potential partners more leadership/management responsibility? Wait until we hear that one of the kids is interested in coming back to the operation?

Naturally, there is a tremendous amount of stress associated with passing on the family business. There is the usual stress that comes from having to operate a working operation profitably – what enterprises do we engage in or disengage from? Who will be doing the work in the enterprises? What are the capital resources required and what will be cash flow expectations for the enterprises? What will the next few years look like for expenses and revenues? What are the urgent projects we need to get done this season?

Then there is the stress associated with the family, and moreover, the family in business. What are people's schedules like this week? What family events do we need to get done? How do we keep in touch with family not in the business? Will mom and dad be offended if I raise the issue of estate planning?

In succession, to these usual business and family questions we add ones like, will the business be able to support the addition of another family? Who is going to be the person who takes over? What planning have Mom and Dad done – when are they going to retire? Have they done any estate planning? Are they going to be giving me anything? What if there aren't any plans? Am I going to be allowed to look at the business books once I'm on site? What is the business going to look like in 10 years when someone new has to take over?

What is succession planning?

Succession planning is the process to transfer knowledge, skills, labor, management, control and ownership between the generations working in a business.



The Start: Communication

Given the questions and the tensions, I wholeheartedly endorse beginning with the topic communication. As we've seen time and again in the articles of *Enterprising Rural Families*, communication is the central tool for productive relationships. In UW's succession programming, we try to help participants be conscious of the communication preferences we were born with (or developed over time). Our preferred methods for sending and receiving messages vary with our personality type – the duty and reasonability driven person who is task focused versus the playful, spontaneous risk taker who is straightforward versus the independent, intellectual problem solver who is direct and thoughtful, versus the passionate, relationship motivated person who takes time to relate to people and let them know he or she cares.

Key Consideration in Business Succession

1) *Determine the practicality of transferring the business. Are business operations sufficiently viable for a transfer to make sense?*

2) *Choose a successor. Identify a family member, employee or other person who is willing to succeed and able to take on the new management and/or ownership roles.*

3) *Begin the transfer of labor, management, and ownership. Always be asking, what needs to happen to develop the successor into someone who can do the job well? The process of succession planning is typically stretched out over numerous years. A moderately paced transition provides a good environment for the bottom line and overall stability of the operations.*

Often we use the True Colors personality assessment program, but others include the Myers-Briggs Type Indicator or the DISC assessment. Whatever the tool, the take away is that we have to be aware of what other people are wired to hear in order to pay attention to the message. Given the number of issues in family business operation, and the tremendous number of decisions that need to be made in succession planning, starting with the building blocks of personality helps us then be aware of communication basics. As we become more conscious of the elements of communication, we can focus more on the issues that need resolution and less on the static surrounding a poorly communicated message.

Succession Planning

I have heard that Dwight Eisenhower said, "Planning is everything. The plan is nothing."

To the succession plan, this implies a number of things:

- Gather lots of information, and evaluate it carefully.
- Planning is not passive.
- The implementation of a plan is not an event or a specific point in time.
- Planning supports better decision making and reduces the risks to the operation and to the family.

As the planning meets the implementation over time, I'd imagine that much of the initial planning becomes useless as the plans are put in motion and new circumstances develop. But the original thinking defines the goal or the outcome we desire: the most important part of the original plan makes clear the destination – the reason you're on the journey in the first place – and builds in the flexibility to address new situations. And the information gathered helps with practical solutions to the dilemmas that develop.

Succession planning is complex because it is the confluence of a number of plans. Some plans are specific to the senior generation. They have at least two plans that need to be explored. The first is the retirement plan – what will the senior generation of management be doing as they transition out of the most active roles regarding the labor, management and ownership of the operation? Can they put a specific date on these events that the family and the business can work toward? How much income do they expect to come from the operation to support their retirement?

The second plan of the senior generation's is the estate plan that make clear in legal form the destination of property ownership as well as the tools that will be implemented along the way, such as things like life insurance that can generate cash or a gifting program that can be used to gradually transfer ownership.

The third plan, and one for which all the stakeholders are responsible, is the business plan. It defines the long term direction for the business and the strategies employed to get there. A viable and sustainable business naturally needs to devote considerable thought towards its enterprises, production and marketing tools, job responsibilities and so on to become the business it is expected to be by the participants and dependents.

The fourth plan is the succession plan. Thinking directly on how the labor, management and ownership of the operation will preferably develop over time is the nexus of input from both senior and junior managers. A timeline helps make the transitions clear. One approach is to take a sheet of paper and along the left border list years out into the future, from 2012 on through the likely life span of the senior generation. Then create three columns to the right – labor, management and ownership. For each column, under the envisioned year, indicate what the transition will be. For instance, in 2015 the junior generation would like to take over leadership of the hay operation and shift management to the junior manager. Or in 2023 the senior generation would like to have passed 75% ownership to the junior generation. Plans can then be made to work to the timeline – for instance, giving the junior generation opportunities to learn about and manage specific enterprise to build competence and confidence.

Final Thought

All of the plans work together as a system supporting the ultimate aim of passing the family business on to the next generation with minimal stress to the business and to the family. All of the work on planning begins with the gathering of information to be used in the plan. The family discussions surrounding things like the identification of a successor, the successor's compensation, the compensation for heirs outside the business in estate planning, the identification of responsibilities and authorities in the business – all these begin with communicating information aimed at long term success.

A SUCCESSFUL SUCCESSION PLAN, IMPLIES A NUMBER OF THINGS:

