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## Succession Planning - Taking Inventory / Crucial Conversations

Dick Wittman, Wittman Consulting

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## One Speech, 1000 Titles

- Are You Getting A Passing Grade in Farm Management?...Building the Road to Excellence
- Positioning Your Farm or Ranch for Business Succession
- Managing Family Business – *Putting Talk into Action*

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## Biosketch

- **Ag Lender – FCS (1972-1980) – Spokane, WA & Washington, DC**
  - Operations, capital management, large and complex loans, strategic planning, bank management governance
- **Partner in 19,000 acre diversified family farm business (1980-present)**
  - cattle, grain, timber and recreational programs
- **Farm management consultant (1980-present)**
  - Farm family transitions and formalization of governance structures, financial planning, managerial accounting, process improvement, consultant training
- **Industry boards/affiliations**
  - Farm Financial Standards Council – Past President
  - PNW Direct Seed Association – Director, Past President
  - Director – numerous commodity group and bank boards
  - Faculty member – TEPAP Program (fin mgmt. & process improvement); Texas A&M King Ranch Institute (MA)

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

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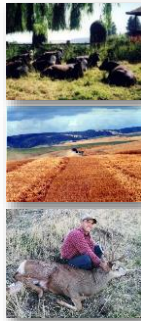
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## Wittman Farms - Overview

- **19,000 acre grain, cattle, timber and wildlife operation**
- **“In transition” for 30 years**
  - **Father and two uncles built business foundation**
  - **25 first cousins for potential successors; only three continued in the business**
  - **9 transition events in 34 years**




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## Transition Events

- **1980** – began ownership transition with stock transfers and contract buybacks
- **1983-85** – senior owners retired; completed buyout contracts
- **1987** – brother disabled/divorced; executed buyout
- **1994** – retired 3<sup>rd</sup> uncle & executed buyout; added two new partners to labor and ownership team
- **2000** – final payments on LT buyouts from off farm cousins
- **2007** – nephew joined management & ownership team
- **2008** – bought out partner (brother) who resigned
- **2009** – next phase of ownership transition to younger partners
- **2013** – retirement/buyout of major partner; expanded junior partners' roles and investment levels.
- **2015** – *Transition #10 underway !!!*

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### Agenda - Succession Planning

- Taking inventory of your current personal and business situation
- Critical conversations with key stakeholders
- Identifying issues where action is needed and formulating alternative scenarios for execution

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### 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
  - 1/2 family businesses fail to go to 2<sup>nd</sup> generation
  - 90% fail to pass to the third generation

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### Proverbial Wisdom

*"It will never work. These family deals never last."*



**Destiny ... or Choice?**

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### Get your hankie out!

- Is professional management/communication “**necessary evil**”... or “**critical asset**” for family business viability & continuity?
- Tragic stories ... “*Predictable Surprises*”
  - Mom & dad with 4 sons and a dream of succession
  - 2 cousins with under-utilized expensive combines
  - \$150,000 in attorney fees to split the sheets
  - Cousins - cattle dispute/shootout - 2 dead
  - \$600,000 in lost efficiency to divide partnership
  - Grandkids at farm sale closing

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### #1 Conclusion

(after 36 years of working with farm businesses)

- Decision is NEVER made until it’s put on paper.
- **Complete this sentence:** “If I go back to the farm/ranch, my expectations are...”
  - what potential successors are thinking...
  - what owners are thinking...

“...the shortest pencil is longer than the longest memory!”  
*Mark Batterson, The Circle Maker*

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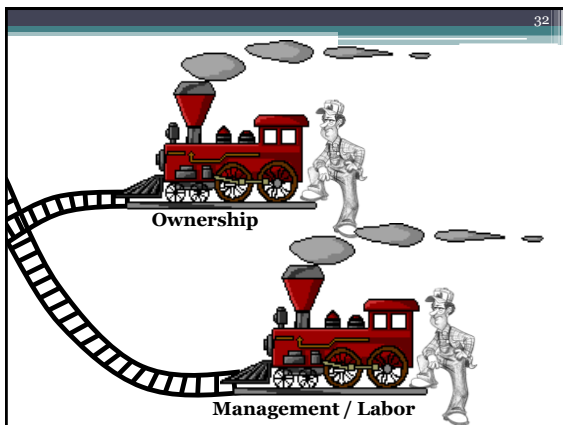
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### Step 1 - Transition Planning

- Take inventory of current business operation
  - Management
  - Ownership
- Put it on paper!
  - For owners
  - For potential successors
  - For advisory team (Why these guys?)
- Define where you want to go in the future

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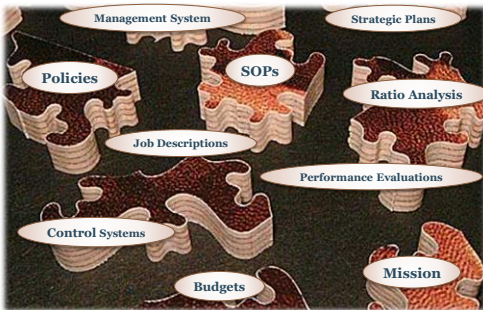
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Describe how your business is managed TODAY.



Successors need to know what they're getting into.

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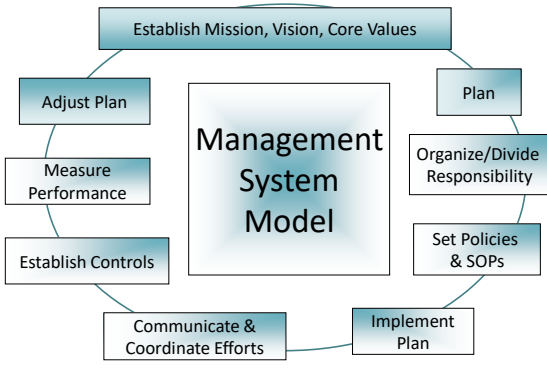
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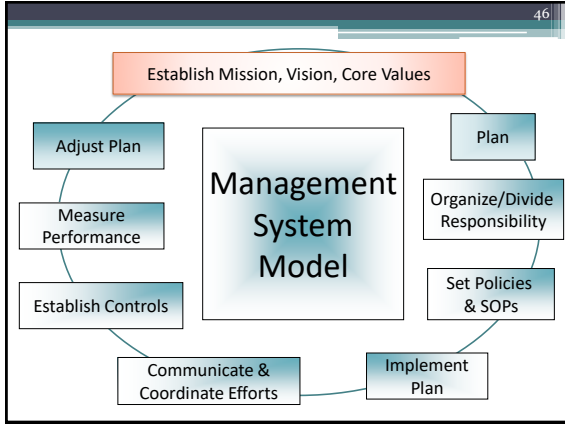
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### What are you passing on?

- Ownership
- Working Career Opportunity
- Values

A photograph showing a man in a light blue shirt and dark pants standing next to a brown horse. A woman in a blue shirt and a young child in a red shirt are also present, smiling and looking towards the camera. They appear to be in a stable or farm setting.

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### 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

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### Wittman Farms Mission Statement



Produce high quality grain, livestock, timber and recreation for U.S. and foreign customers assuring:

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

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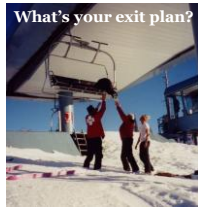
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### Our Vision

*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

← Should this be everybody's goal  
Story: father & 2 sons

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### Operating Philosophy/ Core Values Statement (excerpts)



- Strive for excellence
- Be early adapters
- Committed to professional management
- Open and professional communication
- Environmentally conscious methods
- Quality records openly shared

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## 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 – "Entitlement rules!"
  - Pay and position should be based on skills and performance

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## Vision & Core Values

Consequences of "Bad Chemistry" and Lack of Consensus

- Manage for "today" vs. "Long run"
- Make rules on the go
- End Result:
  - At each other's throats!
  - Chase successors away
  - Sever business & family relationships
  - Run business aground




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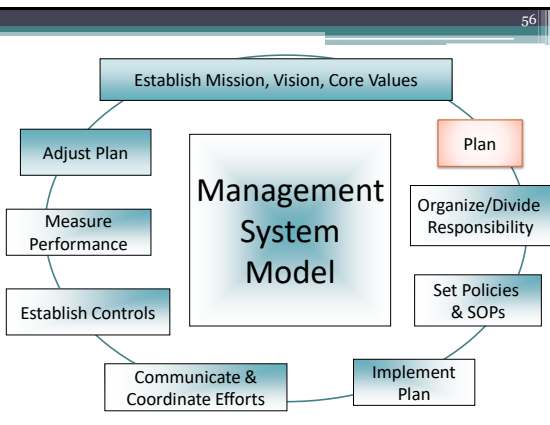
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### Why Farmers Don't Have Time to Farm!

- Production Planning
- Marketing Planning – 73%
- Financial Planning
- Contingency Planning
- Strategic Planning - 19%
- Manpower Planning
- Succession Planning
- Retirement Planning
- Family Planning




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### “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

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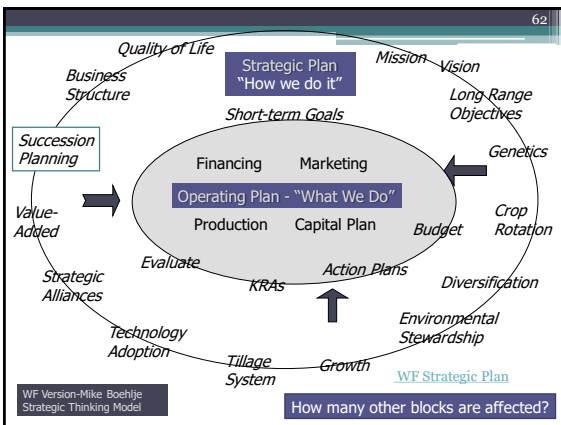
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### Goals and Action Plans - Succession Planning What are you reaching for?

- **Goals (28% do this)**
  - Get them on paper – don't need to be fancy
  - Personal & Business
  - Identify stakeholders intentions & wishes
  - Dispel myths and erroneous assumptions
  - *Plan your family meeting to do this!*
- **Action plans**
  - What, When, Who
  - Budgets, Cashflows
  - Resources required
  - Feasibility



“Idaho Scaffold”

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### proAGtive Succession Planning: Your Questions Answered

Concerns and Aspirations of each family member



General Family Business



Business Owner Dad



Business Owner Mum



Generation on farm



Generation off farm



Inlaws or partners

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#### Business Owner Dad - Concerns, needs and aspirations

- What am I going to do if I can't work anymore, the farm has been my life's work, my hobby, that's all I've done.
- I'm scared about getting old – I want to keep doing what I am doing until I can't
- I know I have to face change and let go but how am I going to do it?
- My wife wants to do other things, I'm not sure I want to.
- What's going to happen when I go? I want to know that everyone is going to be happy
- I can feel I am getting older, it doesn't feel good & having a used by date scares me.

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#### Business Owner Mum - Concerns, needs and aspirations

- I want to spend some 'special' time with family, friends & grandchildren & maybe travel.
- I want family harmony.
- I want to be fair to all my children.
- I want to be able to live where I choose for as long as I like.
- I want to be financially secure & not dependant on the ups & downs of the farm.

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Generation on farm - Concerns, needs and aspirations

- When are we going to be able to make some decisions, we need to be in control of our own destiny.
- We need clarity & direction about the future.
- We've got some great ideas and we'd like to try them out.
- What does our future hold, what can we offer our partners?
- How will we support a future family?
- What are our parents going to do and how will they be funded?
- Will everyone own a share of the farm & will we have to pay out any siblings?
- Who is going to be boss when Dad hands over?
- What are our roles and responsibilities?

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Generation off farm - Concerns, needs and aspirations

- Just because I am not working on the farm will anything be mine?
- They are all so stressed, what can I do about it?
- What happens as Mum and Dad age - is their future secure?
- I feel I am entitled to something, is that how everyone else sees it?

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Inlaws or partners on farm - Concerns, needs and aspirations

- No one else is working as hard or as long hours as my partner, is that fair?
- Is the business going to be able to afford to payout off farm family members?
- Can the business afford to provide housing for all?
- We are not going to be able to survive on this salary for ever.
- Is the business going to pay for our children's education?
- What happens to me if something happens to my partner?

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Lack of Professional Planning

...consequences

- 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!

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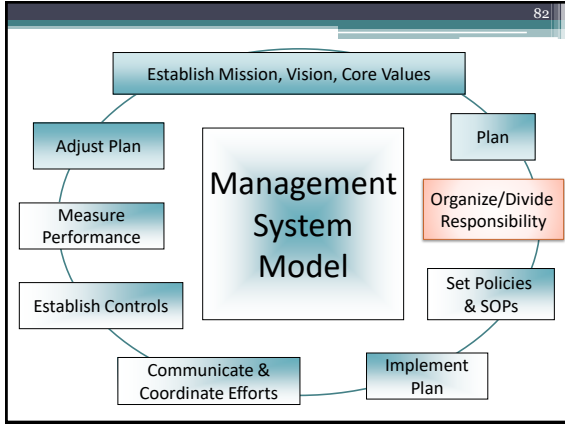
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### Who should be on the bus, and where do they sit?

*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. “I’m family; I’m owed a job”
- How do you pass the baton?
  - Duty statements review, timetables for transition, apprenticeships, OJ training
- How does old guard get out of the way?
  - Board chairman vs. CEO (“boss”)

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### 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**

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is not available at each other in a partnership

**Have you tried this at home?**  
What does your organizational structure look like?

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**Does structure reflect authority & accountability flows?**  
Board → Management → Responsibility Center Mgrs

**\*Advisory Board**  
Insurance Agent, Investment Advisor, Loan Officer, Marketing Advisor, Crop Specialist, Accountant, Attorney, Cattle Breeding Advisor, Forester, Wildlife Expert, Peer Board - Clearwater Direct Seeders

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**Is career path apparent?**

**Board Chairman**

**CEO**

**Asst Mgr**

**Grunt**

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### 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 focus on key decisions of exiting member
  - Checklist for training, delegation, and validation
    - 56 DUTIES listed in Guidebook

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### Role of Board of Directors

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

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### Job Description - Board Chairman

- 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

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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

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Management Succession  
Who usually becomes the Trail Boss?

Profile of Management Team		
Age	Focus Area	Ownership
→Ptr A (30)	xxxxxxxxxxxx	16%
→Ptr B (33)	xxxxxxxxxxxx	20%
→Ptr C (39)	xxxxxxxxxxxx	32%
→Ptr D (36)	xxxxxxxxxxxx	32%

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Who should be the Big Kahuna?

Profile of Management Team		
Age	Focus Area	Ownership
→Ptr A (30)	Crops Manager	16%
→Ptr B (33)	Shop Foreman	20%
→Ptr C (39)	Livestock Manager	32%
→Ptr D (36)	Finance & Marketing	32%

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### 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, control systems
- Execute contracts
- Provide information and policy input to board of directors

What if successors are technicians & operators?

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



Rain break weaning calves

- Facilitator...not boss
- 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”

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### 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**

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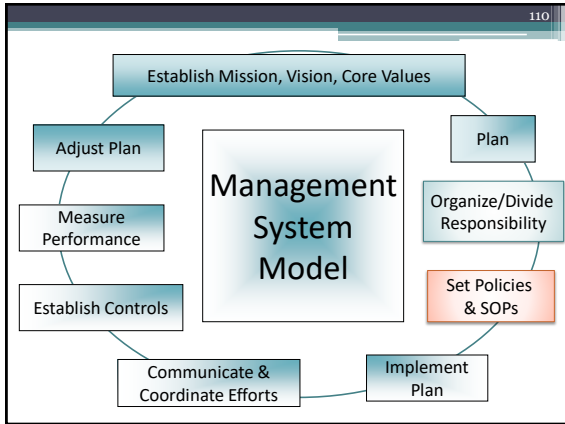
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### Policies and Practices

Do policies and SOPs attract and retain successors?  
...OR chase them away?

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**36% do!**

### Are Policies Written Down?

...Common "Land Mines"

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

Ask each member of farm management team to write down understandings...then compare notes. (see Questionnaire)

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### Housing, Utilities and Meals

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




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### 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?

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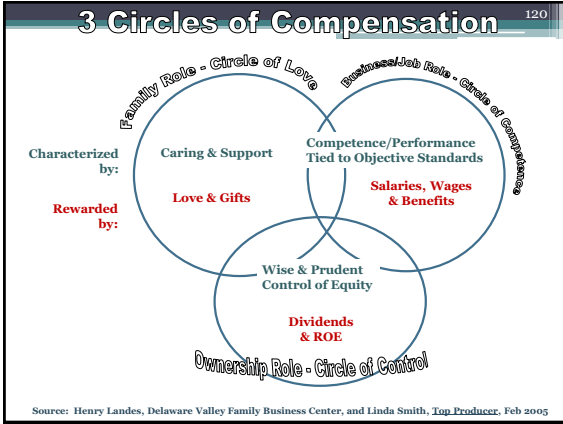
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- ### Common Sins - Compensation 121
- Inequity between off farm kids & “insiders”
  - Bosses kids get preferential treatment
  - Using labor as source of operating credit
  - ⇒ • Confusing compensation with estate planning
  - No differentiation in pay scale
  - ⇒ • Misallocation earnings-Labor vs. Owners
  - “Lack of reality” – skill sets, experience

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### What is “Family Living Cost”?

**Averages – Farm Mgmt Assn Records**

University of Nebraska	\$56-60,000	2000
University of Nebraska	\$97,000	2013

How can that be? I'm only drawing \$1,500-2,000/month!

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## Survey Results - TEPAP 2014

	Median	'03-'12	2013
Total Value of Compensation		\$72,816	\$102,344
Total Non-Taxable Compensation		\$16,950	\$26,000
Est # Days Worked Per Year		298	300
Est # Hours Worked Per Year		2,934	2800
Total Pre-Tax Salary/Wage Equiv*		\$82,350	\$116,969

	Per Day		Per Hour	
Total Farm Package Value	\$244	\$341	\$24.86	\$36.55
Pre-Tax Wage Equivalent	\$271	\$390	\$28.22	\$41.77

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## Family Employment Policy

- Components to keep professionalism in the family business
  - Vacancy requirement & skills required before hiring
  - Economic capacity analysis to support hire
  - Prior experience/training required; apprenticeships
  - Supervision and reporting relationships/nepotism rules
  - Consultation of stakeholders required before hire
  - Correlating compensation/bonuses with responsibility and performance
  - Merit vs. paternalism as criteria for hiring and advancement
  - Avoiding discrimination - family vs. non-family employees/owners
  - Policies on pre-nuptials

*“...Policy before the need”*

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## Danger Zone: Abusing Family Preference

- Nepotism has bad connotation for a reason!
  - Preferential compensation: "...pay mine more because..."
  - "right name" gives special rights (12 yr old at potato dump year; spouse driving truck at harvest)
  - Unemployed kid...needs job. "Let's find a place for him."
- Relevance to Transition Planning
  - Assess commitment to running it like a business
  - "All in...or all out" – rules must apply to ALL
- Solution: Address in Vision/Value Statements and Family Employment Policy

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## Capital Contributions, Withdrawals

- 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?

...Australian Farm Story

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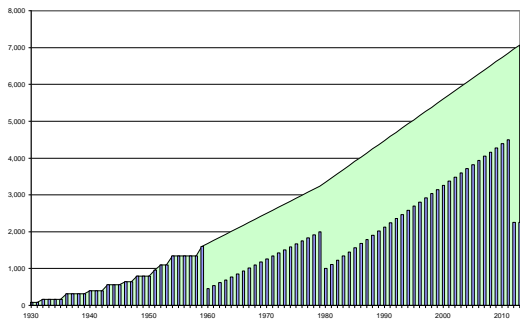
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## History Example




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## SOPs and GAPS

30% have these



- Not something new!
- Purpose: guidance documents for repetitious or routine jobs
  - Training tool – new hires
  - Leverages communication for multiple employees
  - Assures jobs are done following BMPs, GAPS
  - Increases safety & lowers cost of production
  - Baseline for measuring job performance, auditing
  - BONUS: Value Added Revenue (ISO9000, Food Alliance)

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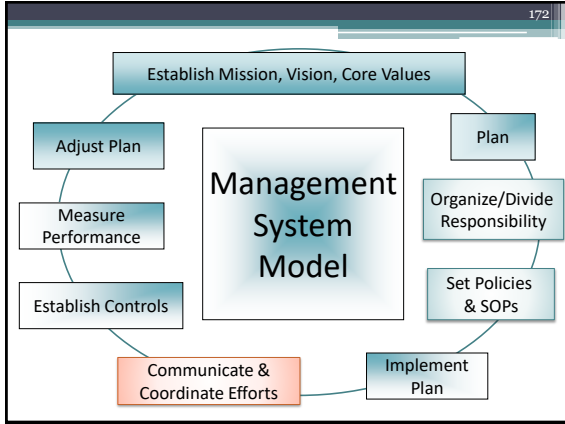
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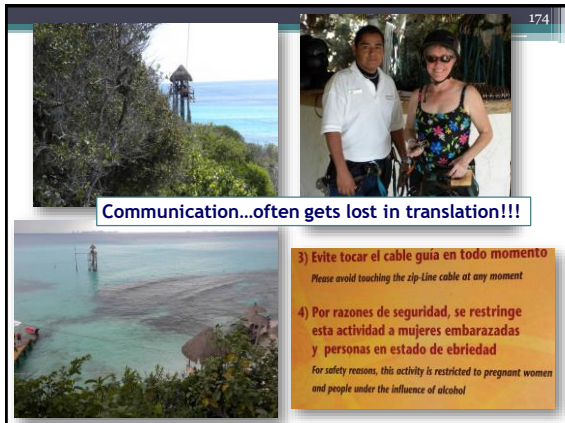
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## Communication Systems

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%**

A photograph showing four men sitting around a table in what appears to be a meeting or training session. They are engaged in discussion, with one man pointing at a document on the table.

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### “Meeting culture” in your business?

- Staff meetings
- Management meetings
- Owner board meetings
- Advisory board meetings
- Family meetings ←
- Family council meetings

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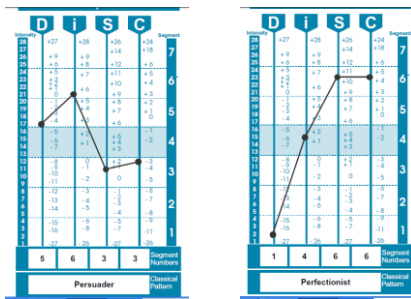
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178

### What’s your DiSC dimension?




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180

### Communication Challenges Family Farm Businesses

- Don’t think business rules apply
- Family status trumps business roles
- Expected “unprofessional” to be tolerated
- Don’t consider impact of personality style differences

“The single biggest problem in communication is the illusion that it has taken place.”  
- George Bernard Shaw

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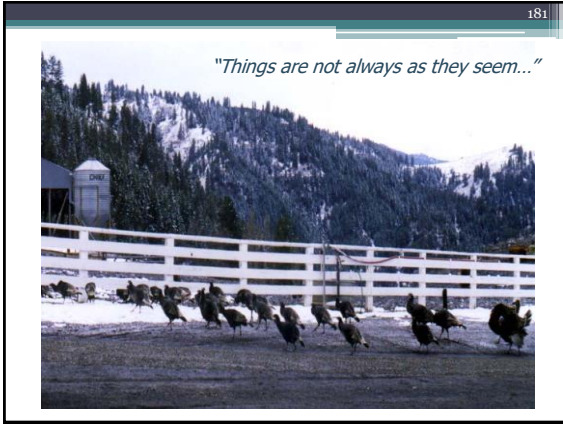
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What does “unprofessional” mean?

**Example:** Talking differently to family than you would to an outsider

*“I’m family, I can’t be fired” - Cowboy Joe*

How long does it take to ID the “professionalism barometer” in a family business?

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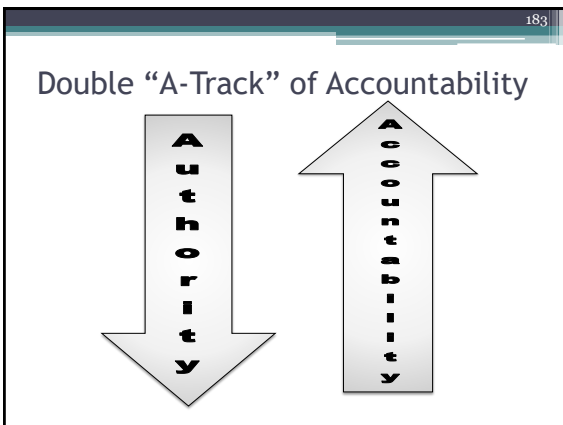
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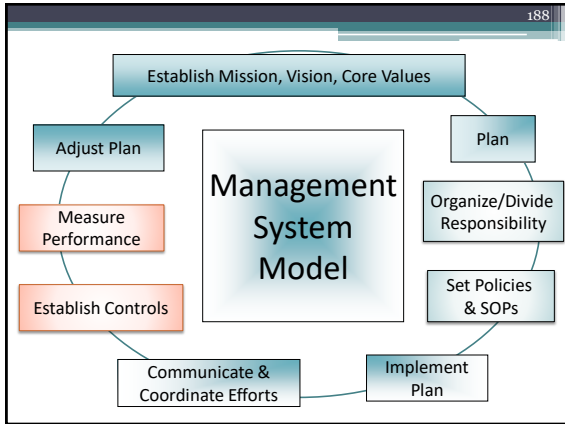
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- 189
- ### Management Control System *Key Elements*
- Comprehensive Record Systems
  - Regular Performance Reviews – Individual & Farm Business
  - Ongoing Training & Professional Development
  - Use of Outside Advisers
  - Good audit and internal control systems

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### 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

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## Are Key Principals Evaluated?

Only 31% do evaluations

- Develop innovative system that fits your business
- Set performance standards tied to job description
- Use disciplined process on regular basis
  - Anybody exempt? (Boss, family?)
- Balance praise & criticism
- Succession challenge:
  - Transfer from PARENTING
  - To mentor, coach, supervisor




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## How do we avoid tragedies?

**...put management process in writing!**

- Define vision, values & management process that takes you there
- Put right **people** with right **talents** in right seats
- Separate the “train tracks” – ownership vs. labor/management
- Reduce retirement fear – extend career path for patriarchs & groom successors
- Set goals & develop strategy to reach targets
- Implement professionally; engage advisory team & peer networks
- Commit to accountability – review performance *regularly & honestly*




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215

## The Farm = A Child’s First Business School



- Children learn first lessons of business
- We can teach:
  - Good business principles, **or**
  - Bad habits
- Lessons taught = heritage we pass on

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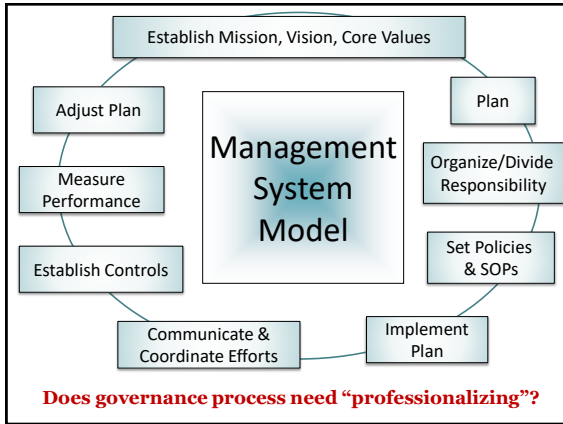
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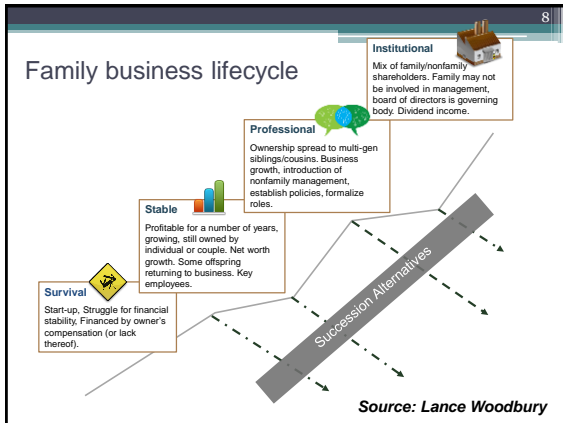
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### Goals of Today's Comments



Time to Head to the Barn!

- Identify critical conversations & issues
- Show path to
  - Build knowledge for yourself and advisory team
  - Implement professional governance structures & transition plans

"Fireman Story..."

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## Where to start? *TEPAP Participant*

- Appoint Transition/Governance Development Coordinator or Task Force
  - Assemble transition advisory TEAM
  - Map out *transition steps* and *management process* needing clarity
  - 3 D's – Discuss, decide and document
  - Join peer networks
- ...most important: deal with Succession Issues, THEN Estate Planning issues*

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### 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. outsourced activities, value added, equipment and facility replacement, enterprise 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				

**Start by taking inventory...**

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## Building family & business profile

Ask: What do you & advisory team need to "take inventory..." (start with 3-ring binder)

- Biographical information – resumes, family information, BD, addresses, goals, personality profiles
- Business Profile
  - History of the business - narrative
  - Governance
  - Tax returns, financial position & trends
- Insurance coverages
- Estate plan documents, wills, trusts, POA, etc.

How much are we paying professional advisors to accumulate this information?

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### Who can help?

- Tap qualified/certified facilitators and resources
  - Farm Journal Legacy Project
  - CA Farm Management Council
  - Succession planning websites
  - WCS Consulting Contact list
  - FCS Facilitators/Consultants
  - Family Business Institute
- Guidebook/DVD–Wittman



*Make study of Family Business excellence a lifelong journey*

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### Train the Trainer Workshops

Wittman Consulting Process

- Initiated 2002; evolved to annual program
- Audience: consulting professionals wishing to add new services or polish up approach
- Workshops conducted for both client firms and open enrollment groups
- Consulting contact list available on website

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### Favorite Reads

- “Getting to Yes: “Crucial Conversations” - *Patterson, Grenny*
- “Negotiating Agreement Without Giving In” - *Fisher and Ury*
- “Perpetuating the Family Business” - *John Ward*
- “Good to Great” - *Jim Collins*
- “The Enduring Legacy: Essential Family Business Values” - *Lance Woodbury*
- “I’m Stuck, You’re Stuck” - *Tom Ritchey*
- “Farm Business & Estate Planning” - *Neil Harl*
- Family Business Magazine - *FBM*

**Make “knowledge building” in family business excellence a lifetime journey.**

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*When you do it right...THE HARVEST REWARD*

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225

### The Past - Our Foundation



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226

### The Present - Stewards Building On



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227

### The Future - Keeping Heritage Alive



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228

### Our Future



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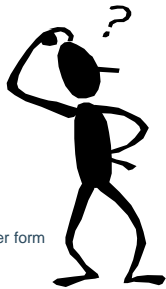
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### Time to put talk into action!

**Coming up next...**  
Breakout Session: Case Studies Workshop



Free resource downloads & Guidebook/DVD order form  
[www.wittmanconsulting.com](http://www.wittmanconsulting.com)

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