7 Steps for Family Business Success

Consider this checklist when transitioning from one generation to the next.

*by **Kindra Gordon***

Family business consultant David Specht has a story he likes to share with ag audiences: A farmer wakes up one summer morning and goes out into his field to check if his crop is ready to harvest. To his astonishment, there is no crop, and weeds have taken over the field. The farmer scratches his head and then remembers he forgot to prepare the ground in the spring and never got around to planting.

Specht, who is also a lecturer in family business management at the University of Nebraska-Lincoln (UNL), acknowledges that this is a pretty silly story, but he says it is much akin to what happens when farm and ranch businesses fail to prepare a succession plan. They have no crop — no legacy — for the future.

As examples, he cites poor communication among family and business leaders; the absence of an estate plan for the controlling owner, no documented training and entry plan for the next generation; and no true exit plan for the controlling generation as factors that can lead to a barren future for the business.

To reduce the likelihood of that scenario, Specht promotes "preparing the ground" for the next generation — be it a farm or ranch or any family business. He notes this is important not only for the business legacy to continue, but for the economy to remain viable as well.

"Family business is the engine that drives our economy in the United States," he says.

Creating continuity

Specht believes that oftentimes succession plans aren't fruitful because all of the necessary parties aren't included in the planning process. Rather, it is just the senior generation taking a top-down approach to what the future will be — or, worse, nothing is done until a tragedy occurs.

To that end, Specht emphasizes seven crucial areas that families in business must develop to facilitate a successful transition to the next generation. He calls it his "Continuity Quotient," and it includes:

1 Communication. "Communication is one of the most serious factors affecting succession planning," Specht says. Namely, communication from the senior generation to the younger generation about the expectations for the business, as well as the younger generation communicating with the senior generation about their own expectations are key for success. But, Specht also emphasizes that all generations should have a voice, and all parties should be included, including family members who do not work directly in the business.

Families should create an environment where all can discuss the business and what it means without uncontrolled amounts of conflict. Specht encourages family meetings and says it is best to "err on the side of overcommunication."

2 Business and Estate Planning. Specht explains that this entails the legal and financial aspects of transitioning a business from one generation to the next. When effective communication has taken place, the estate planning process should allow for perspectives from all generations to be taken into consideration.

As the estate plan is put together, Specht says, "Try to eliminate surprises." Additionally, he emphasizes that the plan should be documented and the process should be a coordinated effort with your professional team, such as a CPA, lawyer, financial planner, banker and insurance professional.

"Make this a collaborative effort," he concludes. "It becomes difficult to have a successful plan if the entities don't work together."

3 Leadership Development. This facet addresses the changing roles between the senior generation and the returning generation. Some questions to ponder include:

- Has the younger generation gained confidence, knowledge, skills and experience by working away from the business for a time (of which Specht is a proponent)?
- Is there an entrance strategy for the next generation?
- Is the senior generation willing to

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Think a transition plan isn't important?

Some number crunching illustrates what's happening when successful estate and transition plans don't materialize. Nebraska data show that in 1982 there were 13,436 operators of farms under the age of 35, and 8,777 farm operators older than 65 years of age. In 2007, there were 3,353 farm operators under the age of 35, and 13,062 farm operators older than 65.

Put another way, in the 25 years between 1982 and 2007, the number of young farmers declined to 25% and the number of senior farmers increased to 149%. University of Nebraska Agricultural Economist Dave Goeller suggests the demographic trend detailed in Nebraska leads to three potential outcomes. The operator or his heirs will either liquidate the operation, or the operator or heirs will rent the land and equipment to the highest bidder, or a successor will be found to continue the existing business.

The choice of bringing in a successor vs. the first two options is going to be a major decision of the retiring operator, Goeller says. He adds that the decision about a business successor depends on whether the retiring farmer wants his life's work to continue — and takes the time to develop a plan for it to continue. If a family member is available and capable, the decision may be easier to make. But he also emphasizes that a family successor is not required for the operation's legacy to continue.

If no family heir is interested or available to carry on the operation, Goeller suggests third-party networks, such as Nebraska's Network for Beginning Farmers, have been successful in helping to connect young farmers with retiring farmers in an effort to ensure business succession, rather than business liquidation. That said, Goeller emphasizes that planning is a necessary element needed to initiate and facilitate this transition.

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delegate meaningful responsibility to the younger generation?

- Is the next generation willing to share risk?

"The senior generation is a valuable resource, but their role may need to change and decision-making responsibility should begin to transition to the next generation," Specht explains. He suggests that a written job description can be useful in this process. "The next generation needs to have a defined role, and a written job description can help give clarity about expectations, as well as accountability," Specht says.

4 **Trust.** For the successful transition of a business, a level of mutual respect must develop between the generations. Does the senior generation trust the business decisions and financial capabilities of the next generation? Does the next generation view the family business for its legacy of family stewardship or simply as a financial asset? Communication can help foster some of this development of trust.

5 **Personal Resilience.** Specht points out that not every individual is wired to be an owner — and individuals can address obstacles and stress differently. This must be considered as future plans are made for the business. It's a facet that can also be addressed with good communication within the family.

6 Retirement Investment Planning. As the senior generation makes plans to retire or step away from the business, they must evaluate how much capital is needed to retire and when they will back out of the business. This too should be discussed with the family and business leadership and be considered in the transition process.

7 Key non-family employees. The communication and succession planning process should not overlook key non-family business employees. Do they know what the vision is for the business? Do they respect the next generation? Is there an incentive for them to stay? By including them in the information and plans, many conflicts can be avoided.

Specht says that by evaluating these seven areas, preparation of the senior generation and readiness of the next generation can be measured — and areas that need more attention can be addressed.

Specht has developed "The Family Business Continuity Audit," an online tool to help assess, organize and quickly determine the areas of continuity that are most important for the family to address. For more information, contact him via his website at *www.davespecht.com* or 402-470-7416. AJ