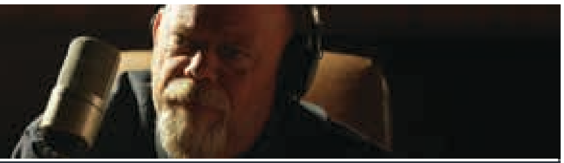
Angus Talk



Outtakes and interviews from Angus Talk *radio*

Business with succession strategies

Many Angus operations out there are family-owned and -operated, but with every farm there comes a time to turn the operation over to either the next generation or a new manager. Barb Dartt, a veterinarian and consultant for The Family Business Consulting Group, assists farm businesses with succession strategies, long-term planning management transitions and family governance implementation. Barb shares her insights with Angus Talk.

Q: How did you get started in the agriculture industry, and what led you to The Family Business Consulting Group?

A: I am actually third-generation extension and third-generation Michigan State. I grew up watching my father and grandfather support farmers working on their businesses in the ag industry. When I went to Michigan State, my goal was to help producers on their businesses over time. I took a winding route — went to vet school, started in the dairy industry. That gave me access to a lot of producers in Michigan, but I really wanted to have a broader background, so I got my master's degree in ag economics. I've been doing consulting work for about 15 years now.

Two years ago, I joined The Family Business Consulting Group because of their deep knowledge on family businesses. There's tons of experience and understanding there of the uniqueness of family-owned businesses, and they support families through transitions.

Q: When is the right time for a family to consider a farm succession plan?

A: As soon as they have an inkling they want the business to continue past their own generation. In agriculture, we don't always think of ourselves as family-owned businesses, and sometimes we don't think of it as a business so much. A lot of times people think more about the technical aspects of the business more than they think about how to set it up so it meets our goals. Succession is a subset of that.

It's important to start thinking about the next generation when kids are very young. We're going to talk about governance later, but there's some really interesting and simple tasks we can accomplish when kids are quite young to set us up for success in the future.

PHOTO BY KINDRA GORDON

►Barb Dartt, a veterinarian and consultant for The Family Business Consulting Group, assists farm businesses with succession strategies, long-term planning management transitions and family governance implementation.

Q: What are the benefits of having a long-term plan in place?

A: It supports family relationships. At the end of the day, most businesses and families I work with want to preserve, retain and grow family relationships. The business isn't worth not being able to have Christmas together. Having a long-term plan gets the business out of the way of having a family relationship.

Q: Even if you're planning this stuff ahead of time, it can be emotional. How do farm families stay positive and keep relationships positive during that process?

A: There are three big areas where people in family businesses get their feelings hurt. One is decisions. Who has the authority to make what decisions?

For example, I have clients who were building a new shop. It was supposed to be the son's project; his dad told him to make the calls on it. When the contractor asked the son if he wanted doors with windows or without, the son made the call to have windows in the doors.

The next day, the doors were going in, but with no windows. When the son pointed out they were supposed to have windows, the contractor said, "Your dad came by. He changed his mind."

When you think you've got the authority to make the call, and somebody steps in front of you, whether that's dad or a brother or a sibling, that causes hurt feelings.

The second area is information. Information is power, and when people feel like they've been excluded from the information loop, or are brought in late, that causes hurt feelings. We need to create the guidelines ahead of time. We say, hey, these decisions are ours, because we're the owners, and these decisions are yours because you're management. Let's create the rules before we have to make those decisions so people don't get left out of the loop.

The third area is compensation and reward. What are you going to make? What does it take to get a raise? What are you giving up in your base salary to earn the right to be an owner if that's the way we're going to set this up? What are the trade-offs?

Q: Is it better for farm families to split planning by responsibilities vs. financial? Where's the line drawn?

A: It depends on the size and complexity of the business. If you're Tyson Foods, that's a pretty big, complex business, and you would need a team of advisors. A small family-owned business has full overlap in the three main systems that function within a family business — ownership, management or the business system itself. When you add on the family system, then you have really pretty complete overlap, because all the owners are managers, and all the owners and managers are family.

You can keep that team small, but you're going to need a lawyer, an accountant, at

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the very least a tax preparer. You're going to need at least two folks, and it is paramount you ask them to collaborate so that if they disagree on the advice they're giving you, it's their job to either reconcile it or to come to you and say, "Hey, there's two ways to go here. There's the pros and cons; you guys need to choose."

When the business is larger and more complex, you need a bigger suite of advisors. At some point, my services are helpful as a facilitator, as somebody who understands the finances and the people. Somebody needs to be the quarterback of those advisors, who will reach out and say, "We had this discussion today, and I think it sounds like somebody's changing their mind on the escape plan. You might want to give them a call and check those things out." I think that one of the best things you can do as a family-owned business is lay out those expectations for advisors, both on what they're going to do to serve you, and how they're going to work together.

Q: How can the family still stay involved in a farm operation after they've hired a manager that's outside the family?

A: In ag, we tend to have a lot of businesses that are owner/manager-run, where the owners manage the business. From a decision-making standpoint, it's healthy to separate what goes in the ownership system area from what goes in the management area. There are two very different groups that ought to be at play there. One is the board. That board could represent ownership and fully represent shareholders. Then there's a management team that needs to function. It feels formal, but that's the best way to get really clear ahead of time about what decisions belong in which group. That gives clarity for a non-family manager.

Q: Are there things families can do to make the transition to the manager easier?

A: It goes back to setting it up ahead of time. If you can't be clear on what you need in a manager, and the field they have to play on, they're not going to perform very well for you, because they're trying to change the tire on the car while it's rolling down the road. Put your time, effort and investment, if you need it, toward a facilitator to set that stuff up before you choose the non-family manager.

Q: Is there something an incoming manager can do to help the farm family make the transition?

A: Non-family executives, if they have some family business background, can be really helpful. The great ones provide a level of stability to the business because they are someone a family member can talk to that isn't mom, dad, aunt, uncle. They are a neutral third party. They can go vent a little with them, instead of to dad's sister.

If I were going to go work as a non-family executive in a family-owned business, I would insist on a set of guidelines ahead of time. What's the vision? What values am I expected to uphold? What are my responsibility areas?

Q: How do long-term plans stack up from a legal perspective? You mentioned lawyers earlier. Do they need to be involved?

A: Yes and no. If you're gathering to talk about vision, values, mission or the top three most important goals for the next 18 months, then probably no, unless they're trained in facilitating strategic planning. If you're thinking about estate planning or ownership transition specifically, then a lawyer that's got experience there can be helpful because they can sometimes say, "Here's how you said you wanted to transition this ownership. Here's how I see that playing out in 20 years. Does that fit with what you want?" They can help you look down the road and avoid unintended consequences.

Q: What other documents do farm families need to have in order?

A: When folks think about transition planning, often they think about how we transition ownership, which would require things like operating and shareholder agreements. Certainly you should have a buy-sell, which includes how you value the business, when the payout occurs over what time frame, how much has to be put down as a down payment, and how you're going to fund that.

The other typical approach is estate planning: having a will, last wishes, power of attorney, those kinds of things. The most important documents sometimes are a little more intangible in nature, and they go back to this idea of long-term planning and the fact that succession planning is just a subset of long-term planning.

It's really important for families to have a guiding principles document, or a family charter. It doesn't have to be fancy, just has to be a page or two, saying, "Here's how this family is committed to this business.

From a decision-making standpoint, it's healthy to separate what goes in the ownership system area from what goes in the management area.

Here's how the business supports our family. Here's our vision for what's going to happen. Here are the values we're going to adhere to regardless of the kind of business we take part in." That guiding document can really provide a huge foundation for the family in future generations.

Q: What is a family governance?

A: We've talked about three systems that exist in family-owned businesses: The family system, the ownership system, and the business or management system. It's pretty easy to see how the ownership and business systems govern themselves. The ownership group typically has a board. The business system has an executive management team. What we overlook is how the family has a voice.

Family governance is how we give the family a voice. It gets scary for people because they say, "Listen, I can't even get a decision made with my brother. You're telling me to ask our wives how we run this thing?"

No, that's not what I'm saying. Business decisions should stay within the business, but what does this family stand for? How do we support the business? When will we sacrifice to support the business? Those discussions belong in a group of family members.

Now defining who family is, who sits at the table and talks about those things, is sometimes difficult. It's always helpful to have this third-party facilitator, particularly in family meetings, because it's really hard to speak up and be somebody besides Uncle John or Dad or Mom. A third-party facilitator can get things said and on the table in a way that is less offensive or is unlikely to cause a lot of hurt feelings. AJ

Editor's Note: *Hosted by Doug Medlock, the American Angus Association's* Angus Talk *radio show features conversations with industry personalities from across the country. The program is broadcast each Saturday at 10 a.m. CT on Sirius XM's Rural Radio, Channel 147. Outtakes featured here are edited.*