Steps To Succession

There are a series of steps to consider before ownership transition.

*Story & photo by **Kindra Gordon,** field editor*

Succession planning is often thought of as a "transfer of ownership," but that's just one piece of the process — and it should usually be the final piece, not the first. That's the advice of Michigan-based Barbara Dartt, who has an agricultural background and works with families in the Upper Midwest as a consultant with The Family Business Consulting Group.

How does Dartt define succession planning and what steps should it include?

She offers this definition: Family business succession planning is the development and implementation of a strategy for the transfer of family business — including management, leadership and ownership (finances) — from one generation to the next.

"In my opinion, succession is a lifelong process that involves a wide range of steps aimed at ensuring continuity of the family business through generations," Dartt adds.

This process doesn't necessarily happen in a neat and timely order, but, she says, "There is a bit of an order to the steps to follow." Dartt suggests the following process:

Step 1

Align the family's commitment to the business, which is essentially mapping out a business plan. Dartt notes it is important to align family and business plans so they can mutually support each other's interests, needs and goals. She suggests the generations communicate to set guiding principles.

"Without them, structure doesn't matter," she notes.

Dartt likes to ask producers if they "want to die with their boots on or see their successors carry on the business?"

She notes that whatever your decision, it's important to be clear with potential successors.

"They deserve to make decisions about their lives and careers with full knowledge of the potential for management and ownership," she says.

►Barbara Dartt, a consultant with The Family Business Consulting Group, offers this definition of succession planning: Family business succession planning is the development and implementation of a strategy for the transfer of family business — including management, leadership and ownership (finances) — from one generation to the next.

Step 2

Discuss and determine personal financial planning. Assuming the senior generation plans on slowing down someday, Dartt says personal financial planning should include evaluating the income security plan for the senior generation, as well as how much they will need to maintain their lifestyle and have liquidity to do what they want to do. Additionally, this process should include life insurance planning, health insurance and Medicare planning, and estate planning to minimize taxes and optimize the business structure for success. Determining ownership values and salaries for the successor are also critical.

Dartt recognizes that preparing for succession can be challenging.

"The successor must prepare for a job that doesn't yet exist, in an era no one can fully foresee," she acknowledges. In spite of that, she says, "Senior generation, know your number. There has to be a fundamental level of leadership and letting go."

Step 3

Begin transitioning management responsibility to the succeeding generation.

Neat note: Family firms outperform non-family firms

Barbara Dartt, a family business consultant, says family businesses are special and should take pride in their performance. She cites a 2013 *Harvard Business Review* article that reported that, although family-run companies slightly lag the profit peaks achieved by non-family businesses when the economy booms, family businesses do weather recessions — such as the 2008 economic downturn — far better.

Dartt notes that assigning more and more responsibility to the succeeding generation is where this process starts. Once the individual shows high performance and capabilities, eventually transfer of control over portions of the business should follow. This would include giving the succeeding individual more budget and supervisory authority.

As these transitions occur, Dartt encourages the senior generation to view themselves as a coach — checking in with the successor on their status and progress. However, she underscores that it is important for the successor to become the problem solver and crisis manager.

There should always be a process of providing new responsibility, new training and new mastery for the incoming generation, with the goal of moving toward transfer of management control and ownership.

Once these transitions are successful, ultimately transfer of the ownership of equity would occur.

To this point, Dartt notes this is why succession is a lifelong process — there should always be a process of providing new responsibility, new training and new mastery for the incoming generation, with the goal of moving toward transfer of management control and ownership.

Additionally, to enhance this multi-step transition process, Dartt notes it is critical to have defined roles and responsibilities, have a decision-making framework in place, have a

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communication structure, and have a reward and accountability system. Additionally, as the successor takes on more and more responsibilities, management and ownership, the roles of each generation will need to be reviewed and adjusted.

Step 4

Move forward with ownership transition. The transfer of assets and equity should occur once the successor has had the opportunity to show increasing responsibility and the ability to master management roles.

Most importantly, Dartt underscores that succession planning is more than just estate planning — it must also include people planning.

To that, Dartt notes that succession will likely be one of the hardest jobs a family has tackled. Key to this process is acknowledgement that both generations believe each has contributed to the succession plan.

She advocates seeking a third-party facilitator — be it through extension or professional services — to help navigate the often complex succession-planning process. She notes that a third party can also help hold the family accountable to a schedule and keep the process moving forward to ensure a succession plan is implemented.

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Editor's Note: *Kindra Gordon is a freelance writer and cattlewoman from Whitewood, S.D. The Family Business Consulting Group offers an On-Demand Electronic Library with programs covering every aspect of family business, from succession and continuity to siblings and family offices. View the complete program list at* www.thefbcg.com/publications/on-demand-education/.