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Transition Two Step

Passing the family ranching business from one generation to the next involves grace and grit.

By Kindra Gordon

Visit with any family ranch about what plans are in place to pass the operation from one generation to the next – and chances are they've been dancing around the topic with very few details in place.

Instead, family members are likely at a stalemate due to lack of communication, hard feelings and lots of confusion.

How can families in these scenarios move to the next step? Kevin Spafford is a California-based financial planner who specializes in succession planning among agricultural businesses through his firm Legacy By Design. Spafford has also authored a book by the same name and is a regularly featured speaker on the ins and outs of succession planning.

Through his Leave a Legacy blog for Farm Journal Media, Spafford addresses many of the issues important to successful succession planning. Here, is a round-up of the steps Spafford highlights via his blog for transitioning a family business from one generation to the next:

Take Action

Spafford comments that the stalemate scenario is a familiar one. He says procrastination, confusion and the emotional dynamic are often the causes for lack of action among families.

For instance, Spafford points out, "The language of succession is just different enough to be baffling, and no one wants to be in a situation that is uncomfortable. A confused mind always says no."

But Spafford encourages families to get past these roadblocks and take action toward planning their future.

In his book, *Legacy by Design: Succession Planning for Agribusiness Owners*, Spafford says, "Every action is preceded by a decision to act by design or by default. Some people refer to this concept as proactive versus reactive management. You can act to avert crises or you can react to the demands of a given situation.

He goes on to say, "Unfortunately, many people live by default. They are constantly predicating their actions on the crisis of the moment... As a successful business person, you must avoid crisis management. You are most successful when your purpose is focused and you know exactly what outcome you want to achieve."

To that end, he adds, "Comprehensive succession planning is always a collaborative effort. You must involve multiple generations, a variety of professionals, and your loyal employees."

As such, Spafford acknowledges that succession is a difficult process. He says, "Succession is not a function of money, it is not achieved through the force of will, it is not a right of passage and it's certainly not a birthright. Succession is rare. Less than 30% of first generation businesses will pass to a second, and only about 10% may pass to a third."

He adds, "Succession – successfully following in sequence, and passing the operation as a going concern from one generation to the next – is only achieved when pursued as a goal in and of itself."

As part of that process, Spafford suggests succession must:

Be written and clearly defined

Be supported with positive action

Be a concerted effort

Include all active family members

Involve all loyal employees

Be measurable

Be passionately supported by the patriarch/matriarch

Moving Forward

So, how can ranch families move into the future with a transition plan in place? Spafford shares the following tactics that can be beneficial to the process.

Start communicating.

Spafford – along with most succession planning experts – say the best way to resolve or minimize conflict is to keep all involved communicating and informed.

Regular family meetings tend to be the best means for doing this. These meetings should have an agenda, be structured and follow the rules and courtesy expected in any business environment. If necessary a professional facilitator or mediator could be used in early meetings, with facilitation eventually rotating among family members.

Of this process Spafford says, "Once families begin a new era of respectful and open communication, they report an increased appreciation for each other and a renewed love for their work."

Determine the vision.

Once family members are communicating, the next essential step is to agree on a shared vision for the family operation. Not everyone will have the same vision; so this process will likely require some compromise and consensus building.

Spafford says, "It's well worth the effort to explore your vision for the business and set it to paper as a fundamental element of your business model."

He suggests considering these questions as you form your vision statement:

What values will be promoted by the actions, management, systems, and appearance of your farm or agribusiness?

How do you want to be perceived by your customers?

How do you want your employees to treat your customers?

For what particular specialties would you like to be known (both products and services)?

Have a "working" business plan.

Essential to the succession process is a detailed business plan that outlines the goals of the operation and lays the roadmap of how the “vision” will be achieved, while also setting the stage and timeframe for the transition from one generation to the next to take place.

That said, Spafford emphasizes that there is a fine line in implementing the plan. He says on one hand, a plan must be flexible enough to adjust to changing conditions, shifting resources, variations in consumption trends, regulatory initiatives, and evolving abilities.

On the other hand, the plan shouldn’t be revised so much – or totally ignored – to the extent that the long-term perspective is lost.

He says, “Annual updates should reflect changes in goals, the business, and the people involved.”

Define roles.

Along with the business plan development, establish the roles and responsibilities of those involved in the family operation. Spafford suggests this should also include identifying the successor – be it a family member, trusted employee, or promising outside candidate.

Spafford says this definition of roles helps to create competence and encourages accountability among people. He says, “Management, or leadership, in the family operation is no different than any other organization. There must be a workable structure in place to allow for discretion within each role, accountability for each position, interdependence based on the team, and methods for grievance, governance and growth.

Work with a professional “team.”

Along with the vision and business planning aspects, estate planning must also be considered. This entails the legal details to ensure that the ranch or agribusiness passes to heirs unencumbered by debt that may threaten the economic viability of the business. As well, retirement planning to allow for financial independence for the retiring generation must also be considered.

For this process a team of trusted professionals will need to be included. Spafford says, “Discuss succession planning with your current advisors, CPA, attorney, financial professional, or retain a specialist. Keep in mind action is your ally, and procrastination is your opponent.”

Recognize that more than assets must be transferred.

A common mistake in succession planning is doing all the proper paperwork to legally transfer the ranch from one generation to the next, but then failing to transfer the control; the decision making abilities; the leadership role.

Spafford sums this up by saying, “Succession planning is not just about passing the business entity to the next generation; it’s about transferring the spirit and the intellectual capital of the entrepreneur to tomorrow’s business leaders. It is about exit planning with grace, ensuring that the business will continue to grow and prosper as the business owner plans for retirement or the next venture in his/her vocational life.”

Specifically, Spafford suggests a written plan should be developed to help both owner and the successor to understand what is required, how the training will be conducted and provide documentation of progress.

Spafford says, “Tomorrow’s leader is developed today. Start on the training now – so that the new manager will be fully prepared to step in when you are ready to reduce your own involvement in the day-to-day operations.”

In the end, Spafford says the work to develop a comprehensive succession plan should ultimately position your business and your family for long-term success. He concludes, "The ultimate goal is a lasting legacy."

For more information about Spafford's services and his blog visit www.legacy-by-design.com or call 877-523-7411.

Equitable vs. Equal

Kevin Spafford, a succession planning specialist and author, acknowledges that splitting a family business as inheritance among children, can be tricky. He says, "Most parents take pride in treating their kids equally, yet when it comes to succession of a family agribusiness, that may not be the best path."

Spafford continues, "If all of your children are passive (not actively involved in the business), it may indeed be possible to equally divide ownership. With the kids as shareholders to a corporation, operational responsibilities would be handled by a third-party manager. "

But he points out that if, however, some of the children are active in the business and others are passive, consider how transferring ownership shares to passive children may adversely affect the family and the business:

Even under the best of circumstances, passive children may complicate the decision-making process of the business.

Passive children hold a non-liquid asset, which provides no foreseeable benefit to the lifestyle of their own households.

Active children have made personal contributions of sweat equity, have foregone more lucrative opportunities elsewhere, and have made do with minimal income when necessary.

Factor in spouses and grandchildren (both active and passive), and things can really get sticky.

Thus, Spafford says, "In a comprehensive succession plan, the goal should be equitable rather than equal transfers. With an equitable transfer, each child is given a share of the family wealth in a form that is appropriate to that individual."

He concludes, "Think multidimensional. By considering the health and strength of the family business, you will also help to reduce conflict among family members."