Business Planning

By Mike Wilson

Estate planning pitfalls

10 things not to do when transitioning your farm

■ When it comes to estate and transition planning, things often go more wrong than right.

That's the astute observation of Dick Wittman, an Idaho rancher and farm management consultant who has spent 30 years coaching farm families on this topic. Wittman, a *Farm Futures* contributing editor, lives and breathes this topic nearly every day. Now it's even more personal, as he and his business partners continue their 30-year transition planning journey working to pass roles to the next generation.

Pitfalls to avoid

Wittman recently offered up some of the classic no-nos he's run across when coaching clients. See if any of these sound familiar:

1 Oversimplifying what to talk about. "It's not enough to say, 'We just need to communicate,'" says Wittman. "You have to get into your business and understand what you need to communicate about." The key is defining critical issues that warrant communication and then writing down decisions after communication has taken place. Issues needing candid discussion:

■ ownership vs. management transition

■ how the business runs today vs. how it will run in the future

■ vision for the business

■ discovery of who shares common values that are compatible and can form a cohesive team for the future

If you're a member of the younger generation, determine if you desire to be on the ownership train, the labor/management train, or both. Make sure in these discussions you know which track you are discussing.

Document and describe in writing what your management system is now. That means a written plan, job duties, defined policies and standard operating procedures, or SOPs, and how the plan is implemented. Define your process and "business culture" concerning performance measurement.

2 Putting the cart before the horse. Here's a riddle: Which comes first? Estate planning, wills and power of attorney? Or succession, transition planning and critical conversations? "I challenge you to call a meeting of your stakeholders [family and possibly key employees], have the critical conversations first, raise all the questions that need to be asked, and make sure everyone takes notes," says Wittman." You'll be amazed at the responses to this process." Once you have goals defined and reasonable options defined for transition of the business, contact the experts to begin estate planning. ▶

"Son, I'm making you CEO of this farm. That's the good news. The bad news is, your first job as CEO is to fire your brother."

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3 Treating succession planning as an independent discipline. Fact is, transition planning is not an independent management science. It's just one of many critical strategic pieces of your business. A short-term operating plan deals with "what we do" — what you produce, how you market and finance, etc. Strategic planning is the "how we do it" part; it must connect to the short-term planning process. "Succession planning is just one part of your strategic plan, and it should receive attention all our lives," says Wittman.

4 Putting this off for another day. Most farm families wait too long to start transition planning for a host of reasons. First, it's too big. "We'll think about it later; let's go farm" is the usual response. Or, it's too sensitive, so you avoid the subject. There's fear of failure; everyone knows a story about families who stopped talking to each other because of a transition dispute. The result: You spend years building a business but spend almost no time figuring out how it will move forward.

A transition plan shouldn't wait until your first heart attack or when potential successors threaten to quit because you have not given them any real ownership opportunities after 20 years working next to you. Instead, start early. Succession planning isn't easy, but it can be more doable if you break it into parts. "You are doing a recruitment job all your life," says Wittman. "If you would consider recruiting your child for the future CEO job, perhaps you would talk to them differently than you do now."

5 Assuming you know what everyone wants. Making assumptions about someone else's career goals is naïve at best. Gather input before you start building formalized plans. Convene meetings of family and key stakeholders and follow through. Build a professional agenda, and appoint a transition team coordinator. If emotions get in the way, hire a facilitator. Then make sure you get feedback and establish action plans, a timetable and a record of the meeting.

6 Assuming the chemistry will eventually "work out." Some people just were not meant to work together. It's natural to create career opportunities for all of our children, but if some of them can't work together, that will only hurt the family business in the long run. "Bad chemistry seldom 'works out,'" says Wittman. "You can see this from an early age. You know there are people cut out to work together and you know when it would be disastrous to try to run a business together. Help potential successors to understand principles and business values where they differ and don't set them up to fail."

Where do farm families most often disagree? One says, "Let's always be leading edge," and the other says, "If it ain't broke, don't fix it." One says, "Maximize profits now," and the other looks at maximum long-term economic and environmental sustainability. One says, "Let's put God and family first," and the other says, "Let's put the business first." "These are areas that you must look at and say, 'If we can't agree on these principles, we can't work together,'" says Wittman.

7 Confusing corporate bureaucracy with business professionalism. You may think everyone knows the family business's mission statement and organizational structure, but when you ask six different people, you often get six different answers. Write it down and reach consensus on what exists today.

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> — *Dick Wittman*

The senior generation is rarely sensitive to the need for educating successors and formally documenting business structure. It's there; it's just in their heads. That's not enough. Everyone needs to know how the business is structured today, the likely structure in the future, and how the role of current boss/CEO will change during and after transition. Do you have a written job description for the CEO, the board chairman and key enterprise managers? You can't delegate what you can't define.

So, develop an organizational chart, knowing roles will likely change over time. The senior generation will likely move away from day-to-day tasks to an eventual role on the board of directors.

"This is structure; that's all," says Wittman. "It's a way to look at the business and start understanding what you do and who will do your job if you die tomorrow." You may not think you have a board of directors, but if, as business owners, you set policies, determine strategic direction, hire, direct and evaluate managers, and maintain financial control — you are engaging in the functions of a board of directors.

8 Don't do what I say, do what I mean. Too often we fail to assess the impact of generational backgrounds and influences. "How many of you saw traits in your parents or grandparents that you hated? At about age 50 you start doing the same thing, but you don't see it," Wittman says. "I call it 'genetic coding.' Elders, listen to your youngsters; if you want to avoid this, you need to understand your own cultural background and family history. What did you dislike most in family predecessors? Elders should give youngsters permission to 'call them out' when their behavior is exhibiting the very tendencies they despised in their own transition and hoped to avoid in the next generation of transition."

9 I'm not micromanaging; I'm mentoring. Really? There's a huge difference. Are you truly graduating from parent or boss to supervisor, manager, mentor, delegator or groomer? Ask yourself: Which work environment would you rather work in if you were the incoming generation? The attributes and personality styles it takes as an entrepreneur to build a successful business foundation are often attributes that make it harder to delegate and turn the business over to the next generation. Spend time understanding personality styles, generational influences and don't ignore these sensitivities from both generations' perspectives.

10 Family favoritism or family preferences? Nepotism isn't a bad word on its own, it's the consequences of nepotism — giving a family member favoritism in a business — that's given the term a bad name. Nepotism is illegal practically everywhere except the family business. In agriculture, we encourage nepotism. Be very careful about preferential compensation — paying your kid more than non-family employees — or allowing abuse of power, such as the 12-year-old who thinks he can fire your foreman just because he has your last name. One way to avoid the negatives of nepotism is to develop a professional family employment policy. This tool has been given credit worldwide for ensuring professionalism in family hiring practices, both in and outside agricultural family businesses. ff