

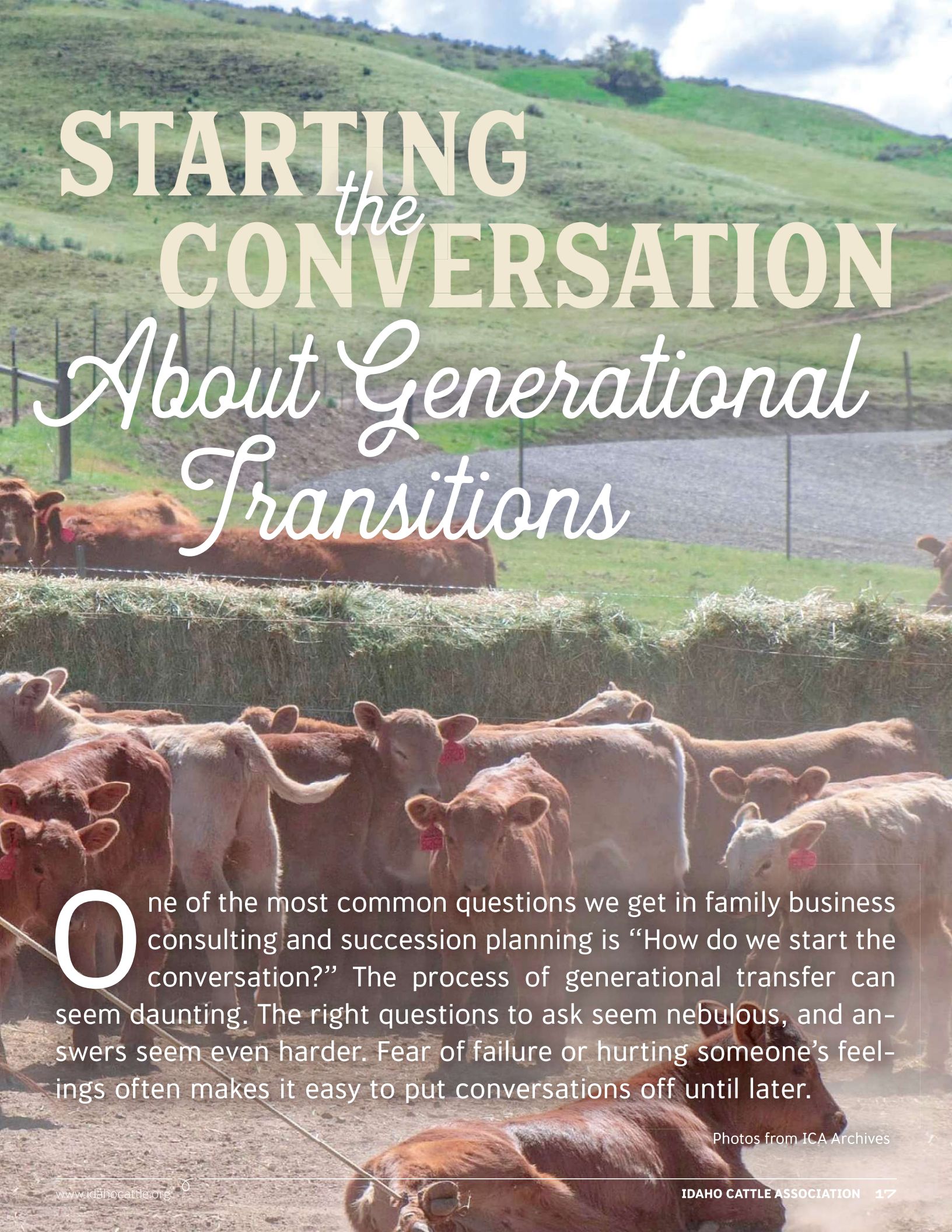
## COVER STORY

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FAMILIES ARE, ARGUABLY, THE HEART AND SOUL OF AMERICAN AGRICULTURE – TAKE THIS TIME OF YEAR TO PROACTIVELY PREPARE FOR YOUR OPERATION'S LONGEVITY.







# STARTING *the* CONVERSATION About Generational Transitions

One of the most common questions we get in family business consulting and succession planning is “How do we start the conversation?” The process of generational transfer can seem daunting. The right questions to ask seem nebulous, and answers seem even harder. Fear of failure or hurting someone’s feelings often makes it easy to put conversations off until later.

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If you or your family are hesitating to start the conversation, consider this question: “What is the potential cost to your family business, to your heirs, and to your relationships, of not starting the conversation?”

We have experienced many horror stories of families that faced untimely tragedies, leaving business partners and/or heirs to face not only the grief of loss, but financial or familial stress.

Alternatively, procrastinating or avoiding these discussions can leave viable successors in a vacuum concerning how to plan their educational and vocational journeys. Many give up hope and pursue other careers or investments, leaving the founders without viable successors and inadequate timelines to groom others to continue their legacy.

In our experience, it is far less stressful and more productive to start the conversation well before a decision needs to be made or, heaven forbid, a

tragedy forces a premature decision. Our most common response to the question, “Where do we start?” is to set up a **family meeting** to demystify the process. Here are some guidelines on how to initiate this first step:

1. Outline questions that need to be answered and basic timelines for when those questions should have answers. Not all questions need to be answered at the same time. Many of these questions are outlined in the list of “potential conversations” below.
2. Create a clear agenda from your list of questions, outlining the purpose of the meeting and issues you are willing to discuss.
3. Set clear ground rules to be followed by those attending such as:
  - There will be no expectations for decision-making; this initial meeting should be informational, with a focus on sharing ideas, dreams,

fears and education about what decisions will eventually need to be made.

- Stress that everyone’s input is valued; and that discussions need to be respectful and professional.
- Decide who should be a part of the conversation. Our recommendation is to be broadly inclusive to ensure that key stakeholders potentially affected by future decisions have a place at the table.
- Decide who will facilitate and what expectations exist for minutes to be taken and shared. If a family has good communication dynamics, it is common to conduct this meeting without an outside facilitator. In some situations, the family can benefit by having an outsider guide the meeting.

Here are potential conversations to include in this first exploratory meeting:

1. **Time horizons** for retiring and/or



transitioning management and ownership of the business – these can be general, or specific, if mom, dad or other partners already know.

2. Potential options for how **housing** will be handled for retiring principals after transition, if current housing is part of the farm or ranch operation.
3. **Overview of business and personal financial positions**, financial viability, potential estate tax exposures, and provisions for liquidity provided by insurance, as well as working capital.
4. If multiple entities are involved, education on make-up, purpose, ownership and key trends for each entity. (In more complex cases, it may be advantageous to schedule a separate educational meeting to focus strictly on financial briefing and education. This is a good opportunity to engage outside advisors and lenders to do this professionally.)
5. Parents' views on financial needs to **retire** with financial security.
6. Parents/owners' potential capacity and strategies for **distributing wealth** (at death, during life, through buyouts). This meeting could also address family views on continuing the family legacy versus dissolving the business and philanthropy opportunities.
7. How do family members' expectations align concerning the business mission, vision and core values? How is family business governance handled now? How will this need to be structured and made more transparent to accommodate success in the next generation? **Alignment of expectations is a critical metric** for family members to succeed, if they are considering working and investing together in a business.
8. What family members have poten-



THE PARAMOUNT IMPORTANCE OF INCLUDING THE NEXT GENERATION CAN BE SEEN DEMONSTRATED HERE IN THE BRANDING PEN OF AN IDAHO FAMILY.

tial interest to work in the business? Is there a defined **Policy on Family Employment**? One common provision is to require an apprenticeship somewhere else before becoming eligible to work in the business. What other expectations need to be shared?

9. Who has potential interest in being an owner in the family business someday – either in active operational entities or as investors in se-

lect farm assets? Is there a defined **Policy on Family Business Investment**? This is a deep dark hole for many family businesses that is often not clearly understood. Assumptions are made and decisions are often executed prematurely before thoughtful conversations are worked through. A more detailed discussion about vetting potential investors in the family business is outlined later in this article.



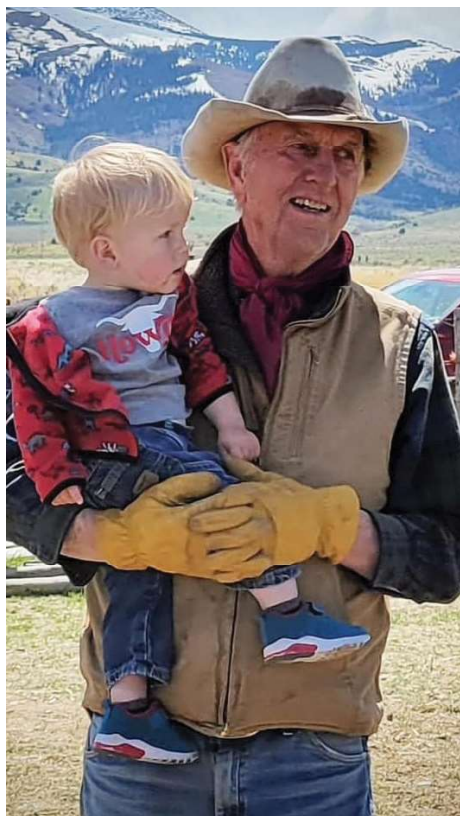


10. What decisions and plans have already been put in place such as placeholder wills, durable powers of attorneys, final instructions and health directives? Where are documents stored and who has access? These items can be resolved often without impairing flexibility in designing an optimal succession plan. Knowing answers to these questions can relieve heirs from unnecessary anxiety about “what if?”

## TRANSITION OF OWNERSHIP

On looking at transition of ownership – the who and the how – serious discernment and candor should take place before any commitments are made to offer investment opportunities to potential successors. One of the biggest mistakes we see is family members or business partners saying “come on back and we’ll figure all this out later.” The following is a sample of topics to be discussed **before** transition decisions are finalized. Thought should be given to whether these conversations are best handled in a general family meeting or in one-on-one sessions, in the presence of your financial and legal advisors.

1. Who is eligible to invest? Lineal de-



scendants, in-laws, non-family members? Business legal documents often already spell out provisions for how this is to be handled.

2. If you want to be an owner, do you have to work in the business? If you join the business as an employee, will there be a waiting period before you can invest?
3. What financial literacy and capacity must be demonstrated before you can invest?
4. What practices have historically been followed on compensation and retention versus distribution of earnings? Will this work for incoming investors, especially if they intend to rely on distribution of earnings to make buy-in payments?
5. If investors share liability for business loans and guarantees, are new investors willing to fully disclose financial information to other partners who are mutually liable for servicing debt?

The long list of big questions needing to be answered can seem overwhelming. Those of us in agriculture

feel far more equipped to tend to our core competencies of managing crops and livestock rather than tackling these tough questions and conversations. BUT, rest assured that many in your shoes have successfully waded through these issues thoughtfully to get to successful transitions.

As we enter the holiday season, many of us will have opportunities to gather with family. Consider setting aside a little time to start these important conversations. It may be the greatest gift you can give your family.

For additional resources check out the Idaho Farm and Ranch Center’s website at <https://agri.idaho.gov/farmcenter/succession-resources/> or the Wittman Consulting website at [www.wittmanconsulting.com](http://www.wittmanconsulting.com).

*Father-daughter pair Dick and Cori have both lived and taught family business transition for many years. Dick retired from management and ownership of Wittman Farms in 2017 and continues to provide consulting services on farm financial management and succession. Cori manages the fourth-generation Wittman Farms crop, cattle and timber operation along with three other family business partners.*



PREPARING THE NEXT GENERATION COMES IN MANY DIFFERENT FORMS.