

By Design or Default?



“The diligent farmer plants trees, of which he himself will never see the fruit.”

Cicero

SET COMMON GOALS

A sound plan helps maintain focus during the succession process.

Starting the succession planning process is one of the best ways to grow a business. Succession planning provides the current generation the opportunity to prepare the next generation for leadership. It encourages pride in a family legacy, and it forces structure. To ensure that your family achieves the goal you each have in mind, resolve to start right now.

As we discussed in the communication section of this workbook, a family meeting is the perfect starting point to set goals for the succession planning process. Keep in mind that you and the other participants must have realistic expectations for the outcome of this meeting. Set specific goals for the group to accomplish to help maintain focus.

Setting goals in advance forces you to think through the variables involved in this type of gathering. It makes establishing the agenda easier and it helps you focus on results rather than methods.

A sound succession plan addresses the goals that business owners have for themselves and their family. It can also enhance the value of the business by making it less dependent on the talents of the owner. This allows the owner to transfer ownership in the business without its declining in value as a result of the transfer.

COMMON GOALS FOR OWNERS. Communicating goals to each other ahead of time is ultimately much less painful for family members than spending a lifetime hoping their parents' plans for them in the business match their own.

Without any succession planning, family members often find out about the owner's plans for management and ownership succession after the owner's death, when there is no chance to ask for explanations, which can be devastating.



Common goals for owners include:

- Keeping business ownership in the family
- Maintaining the business's profitability
- Providing liquidity to the owner or estate
- Providing financial security for the family
- Minimizing the owner's current tax liability
- Maintaining family harmony

There are limits on the ability to achieve these goals. For example, keeping business ownership in the family may not be feasible if no family members are interested in running the business.

In addition, providing liquidity to the owner may require the business to make payments to the owner (such as noncompete payments or payments for past services), which must be evaluated against the goal of maintaining business profitability.

ALLOW FAMILY MEMBERS TO WEIGH IN. When helping the owner prioritize goals and understand their feasibility, it is important to consider the goals of other family members.

CHAPTER 3 EXERCISE

CLARIFY GOALS

Most farmers seem to have a good idea of what they want to achieve when they think about succession. Yet their ideas may not be clearly defined. Succession planning means turning intentions into goals, goals into actions and actions into results. Using this series of questions, your goals may become more specific. Take a few moments, answer the questions, then ask other family members to do the same. (Copies of this worksheet can be downloaded at www.FarmJournalLegacyProject.com.) Compare your answers, looking for common goals.

MAINTAIN OPERATIONAL INTEGRITY

To increase management capabilities and prepare for the next generation to lead, we will use (check all that apply):

- Formal education
- Various experiences
- Seminars, workshops or Extension programs
- Mentors
- Strategic alliance partners

Our succession plan will be written to prevent inactive owners.

- Yes
- No

Management control will be passed to:

or ____ not identified yet.

Our succession plan must allow/encourage qualified family members, including those currently inactive, to apply for employment openings.

- Yes
- No

To keep peace in the family and maximize our talent pool, we may consider dividing the operation into separate units.

- Yes
- No

Our succession plan will restrict ownership to lineal descendants only.

- Yes
 No

ENHANCE THE FAMILY'S FINANCIAL SECURITY

The senior generation must receive financial support from the operation in retirement.

- Yes
 No

We have a written plan for growth and development.

- Yes
 No

All ownership transactions should be based on fair market value.

- Yes
 No

We ___ have diversified/___ will diversify financial resources outside of the operation.

Our plan must include provisions for death, disability, long-term infirmity and other undesirable calamities.

- Yes
 No

The family must provide support for a parent, disabled dependent or other person(s).

- Yes
 No

The senior/retiring generation should receive an inflation adjusted income of \$ (per month/per year).

PREPARE THE NEXT GENERATION TO LEAD

Our operation is managed with a written (check all that apply):

- Operating agreement Employment policy
 Business plan Financial statement

The current managing generation will assume mentor roles and allow the next generation to assume responsibilities, make decisions and be accountable.

- Yes
- No

In case of premature death or disability, _____
(name of temporary manager) should continue to run the operation until _____
(name of next generation) is ready to manage the business.

We will establish an advisory council to assist with major decisions.
The council will include (check all that apply):

- Professional adviser
- Family members
- Banker
- Extension adviser
- Academic professional
- Family counselor
- Other: _____

All leaders in the organization will be informed of and accountable for financial decisions and profit/loss results.

- Yes
- No

To improve leadership skills/abilities, we will use (check all that apply):

- Formal education
- Various experiences
- Seminars, workshops or Extension programs
- Mentors
- Strategic alliance partners

We do/will use regular business meetings:

- Yes
- No

You can also find this tool at
www.FarmJournalLegacyProject.com.



