

Family Business Matters

The Steps to Succession

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While the culture, history and personalities in every family Business are unique, three common practices are the keys to success. (DTN/Progressive Farmer photo by Russell A. Graves)

Transitioning family businesses between generations can be tricky. Knowing when or how to hand off responsibilities to a younger partner requires good judgment in the elder and some awareness of how the senior partner will spend his or her future.

A junior member must not only have some level of technical readiness but also be skillful at balancing parental, community or industry demands. Differences in goals and work styles create strains on family ties, and the supervision of staff or relationships with vendors and advisers during a transition can be confusing and awkward as the balance of power shifts from older to younger.

Every family business struggles with succession, and no magic formula will eliminate all the stress. While the culture, history and personalities in every family business are unique, three common practices are the keys to success.

IDENTIFY MANAGEMENT HURDLES

In a perfect world, a management transition would simply evolve. The younger generation would gradually take on more responsibilities as they gain experience, and the senior generation would hand off more duties as they ride into the sunset. But, in the real world, the younger generation often needs more education, coaching and the chance to make some mistakes before they are ready to take the helm. The retiring generation often needs to be reminded to transfer knowledge and relationships and be encouraged to spend more time away from the farm.

Both are challenged to do what is uncomfortable, whether it involves going to a seminar on managing people or giving up control of marketing decisions. This happens best when specific responsibilities are identified and a plan is developed. The act of naming the management challenge and the process of planning, even if the plan doesn't go exactly as intended, brings the management hurdle to the forefront. That is when progress is made.

COORDINATE OWNERSHIP DISCUSSIONS

Managing a business is a daily task, so transition discussions tend to focus on the management arena. However, the capital needs involving land and equipment, the requirements associated with government payments and the implications of estate and income tax all point toward the ownership structure.

Unfortunately, many families only discuss ownership transitions when parents are working on their estate plans. Sometimes, they don't have any estate-planning conversations, or if they do, they don't share the results of the discussion with the on-farm heirs.

If we expect the next generation on the farm to be excited about the future, we need to incorporate a discussion about how the farm, equipment and livestock will be owned. Career satisfaction is highly contingent on understanding how the future might look. Not discussing a plan for the ownership transition leaves the future of your farm vulnerable to the assumptions, and often disappointment, of your adult children.

EXPRESS CONFIDENCE AND APPRECIATION

When my wife and I were married almost 20 years ago, I told her I loved her. Do I really need to tell her again? When we are around family members for a long time, we tend to take them for granted. We don't always listen or voice our love and gratitude, and we more often vent our criticisms than we voice our confidence.

Hearing you are appreciated by your family members and they have confidence in you is like a performance additive in the transition engine. It augments succession efforts, creating more momentum and enthusiasm for the work ahead. Such positive feedback also creates stronger family bonds.

Succession "planning" is one thing; succession "doing" is another. By specifically identifying management hurdles, having conversations about when and how the ownership transition will occur and offering positive feedback to family members, your odds of accomplishing a successful transition increase dramatically.

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