Outside the Box

by TOM FIELD, professor of animal science, Colorado State University

Succession Plans

As we bounced our way down Wauneta Pass rounding a steep switchback, I glanced at the valley far below as a log cabin emerged from the cover of a stand of willows. The sod roof had long since caved through the rafters, the rough-hewn logs showed 100 years of decay, and the forest was reclaiming the yard where a family's dreams once took root. Abandoned homesteads across the American landscape remind us that the pursuit of happiness is no guarantee of success. As the old cabin faded from view, I wondered what travelers a century from now will witness as they pass my family's ranch — will our dream still be alive?

Finding a protocol

Sustaining a business is challenging even when a functional plan is in place. Sustainability becomes a roll of the dice without a clearly defined and carefully crafted course of action.

Most of us tend to think in terms of estate planning with a focus on asset transfer with minimal estate tax consequences. Certainly the development of an effective estate plan is fundamental to the successful continuation of a family-owned enterprise. But equally important is the creation of a succession plan that specifies the vision of the business, the roles of family members, and a protocol for dealing with the conflicts that typically accompany the process of intergenerational transfer of both assets and decision-making authority.

In both cases, these discussions do not come easily for most of us. Yet, there is no topic of more importance to success of the family-owned business. History has demonstrated that areas of contention tend to be categorized as follows:

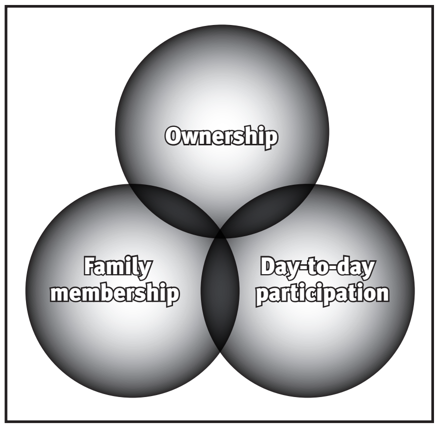
- Who will be involved and at what level of authority/ownership?
- What are the expectations of on-farm vs. off-farm members?
- What are the security needs of various family members?
- Who has control and how will it be passed?
- What is the role of 'in-laws?'
- Do personal, family, and business goals and expectations align?

Participation

Too often these questions are never brought to the table as family members focus on the specific crisis of the day or attempt to minimize the potential for conflict and disagreement. Frankly, it is convenient to brush these discussions aside; however, in so doing, families almost certainly assure that the future will be defined by frustration and decisions made under crisis conditions, such as the death or disability of a family member(s).

Family-owned businesses have three spheres of participation — family membership, day-to-day business operations and management, and business ownership. Because these spheres overlap, it is possible for a person to operate in any one of seven combinations (Fig. 1). For example, one sibling might have family membership, partial ownership and be involved in the

Fig. 1: Three spheres of participation in a family-owned business



day-to-day operations. Another sibling might have some ownership but no operational responsibility, while a hired manager from outside the family would have neither business ownership nor family ties.

As families grow and move into multigenerational formations the issues only get more complex.

Businesses that do not have the family dimension approach hiring and advancement from the perspective of finding the best people for the job and then rewarding them based on their level of performance. Families who are not in business together are not burdened with the task of balancing the needs of the business with the responsibilities of parenthood or family membership.

In the long term it is a mistake to assume that family membership is an assurance of ownership and/or employment. Historically, the oldest male child was predesignated as the heir apparent. However, birth order and gender are poor determinants of ability to manage the financial, marketing, production or operational needs of a business. Thus, the role of the older generation becomes more difficult as they evaluate the strengths and weaknesses of family members and determine their suitability for management and ownership.

Beyond dealing with the list of aforementioned questions, leadership of a family business must also confront the difficult challenge of evaluating the strengths and weaknesses of family members to determine their suitability for positions within the organization as well as ownership level. Furthermore, the process of mentoring and training must be taken seriously if the next generation is expected to succeed.

The notion that "experience is the best teacher" is dangerous in light of the complexity of contemporary business environments. The gradual transfer of authority and decision-making is typically preferred to the sudden transfer of power.

Fortunately, resources are available to help families develop effective estate and succession plans — the Extension service, state and national cattlemen's organizations, private consultants and advisors, and the Internet provide a starting place to access information useful in helping businesses survive over time. The key is to start now and to have the courage, patience and commitment to initiate and maintain discussions on these tough and often uncomfortable topics. In so doing, we may help assure that the landscape is filled with vibrant family-owned farms and ranches instead of abandoned homesteads.

Editor's Note: *Tom Field is a rancher from Parlin, Colo., and an affiliate faculty member in the Department of Animal Sciences at Colorado State University.*