Woodbury: Family Business Matters

Too Many Cooks Complicate Succession

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Bio

Fri Apr 25, 2014 10:33 AM CDT

There are few things in a family business more important -- and complicated -- than developing a good succession plan. Good succession planning is difficult, however, because it is an evolving and dynamic process that includes multiple areas of ownership and management. It is dependent on the attitudes, knowledge and skills of all of the participants, not just of those letting go. And it is deeply connected to the life-stages, self-esteem and relationships of everyone involved. Comprehensive succession planning is a process unique to the particulars of each family business and thus does not easily lend itself to a one-size-fits-all strategy.

However, there are certain elements -- we'll call them ingredients -- that will be helpful to almost every succession planning process. This and other columns will explore some of those ingredients.

Like chefs who control the kitchen, business owners can discourage successors by failing to share meaningful responsibility with their adult successors. (Photo by the U.S. Army, CC BY 2.0)

A TENDENCY TO CONTROL

The first ingredient, self-awareness, is one of the most critical components of a transition plan. Self-awareness is the ability to look inward and understand your strengths, weaknesses, tendencies, style and potential blind spots. Because retirement and succession planning involve others (usually two or more generations), your actions have a direct effect on those around you, and ultimately on whether you are successful in handing off the business. Understanding your impact on others, then, contributes mightily to your goal of a successful transition.

For the senior generation, a primary blind spot of which to be aware is maintaining control too long. For example, I've known many fathers who are very driven and conditioned to being in total control of the business. They can't seem to take a second seat to adult offspring making decisions.

A more specific example in this regard is a business owner worried about the decline of margins in commodity farming. If that owner farmed through the turmoil of 1980s, he may be unable to let the next generation make any significant financial decisions for fear of a mistake.

On the other end of the spectrum, but an equally difficult challenge around letting go, involves parents who still have several years of active management capability ahead of them, but whose children also have significant talent. By not turning over more decision-making authority, the parents are stifling that leadership potential. It feels crowded in the current business, as if people are stumbling over one another when making decisions. As a result, no one feels like they are in charge of anything, and frustration ensues.

These examples each require some element of letting go, of transitioning decision-making authority to the next generation. But before this letting go can occur, those handing off the business must have an understanding of what they are doing to impede the transition. While the younger generation may clearly have room for improvement, the senior generation must also come to grips with their desire to maintain control, which contributes to the difficulties of the succession process.

AWARENESS LEADS TO CHANGE

If the father in the first example realizes that his controlling tendencies are causing his successors to question whether they want to stay in the business, he will likely change his behavior, assuming he thinks they are capable of running the enterprise. (If he doesn't think they are capable, there are more significant conversations in store!)

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If the owner in the second case realizes that his need to have the final say on every financial decision is creating a culture of dependency and lack of critical thinking, he might allow a certain threshold of financial decisions to be made without him. He might then gradually increase that threshold of financial responsibility as he spends less time in the operation.

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And if the parents in the third case understand that everyone is capable of managing more, they might look for strategic ways to grow the business so that the management talent is invested in future business opportunities. In non-family businesses, management talent will often leave for other opportunities if not utilized. If the family business has the capital and the talent, they should look for ways to add to their portfolio of business opportunities.

Awareness becomes the impetus for change when the impact we're having is not the impact we desire. If your goal is to create a spot for a family member in the business, but you come to understand you are standing in their way, you will likely change. If your goal is for your family members to manage the business, but your style is causing them to want to leave, you will be motivated to change the way you interact.

ASK IF YOU DON'T KNOW

Self-awareness, the knowledge of what impact you have on others, is just one of the ingredients necessary for successful transitions. And it doesn't just apply to the senior generation -- those taking over have just as many opportunities to improve, and self-awareness is equally important for them. If you are having trouble understanding your impact, the solution is to ask those around you. Open and honest communication is the seed that blossoms into an understanding of your impact, and greater self-awareness will nurture your management succession planning efforts.

Editor's Note: Lance Woodbury writes for both DTN and our sister publication, The Progressive Farmer. He is a Garden City, Kan., author, consultant and professional mediator specializing in agriculture and closely-held businesses. Over his two-decade career, he has guided many families through inter-generational farm transfers as well as mentored successors. Email questions for this column to lance@lancewoodbury.com.

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