

## Woodbury: Farm Family Business When to Hire a Non-Family Leader



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Bio

Fri May 27, 2011 10:53 AM CDT

Investment firms have a quote that flashes at the end of their commercials or is written in small-type on their marketing materials: "Past performance is not an indicator of future results." Because something worked before does not mean it will work again. So in the spirit of disclaimers, here is one for the family business: Family membership is not an indicator of successful family business leadership.

While a good number of farms and ranches have survived several generations with a family member at the helm, more and more agricultural family business members are beginning to ask the question, "When is it time to hire a non-family CEO?"

Before working on the answer, note the inherent assumption: Someone in ownership is suggesting that the business continue to operate even if a family member may not be the leader. Before embarking on the journey to find an outsider, make sure your family talks through this assumption. Why do you want the family business to continue operating if your bloodline is not in top spot?

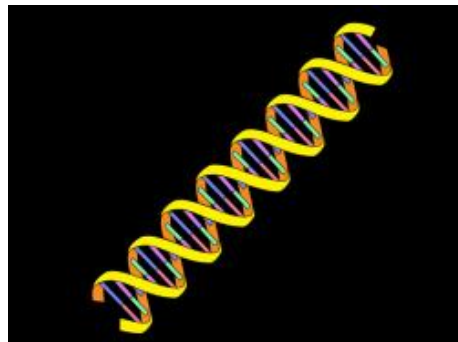
Hopefully, the owners receive a good return on their capital by continuing to own the business, even if they don't lead it. Perhaps continuing the business is important to your legacy. Maybe the next generation has some emotional attachment but not the interest in living on the farm. Whatever the reason, a good discussion about why you would continue to own a business together will build a strong foundation for the consideration of a non-family leader.

A non-family leader is often considered for at least two reasons, the first being lack of skills, knowledge, experience or desire by the next generation. It may be that family members don't have the necessary skills in or knowledge of key areas like grain marketing or managing people. It could be that no one wants to be out in front as the leader, or has a desire to be the boss. Or, it could be that the right elements are there in small quantities, but the next generation just isn't ready to step into the buck-stops-here position. The volatility in the grain markets over the last 10-15 years, coupled with the litigious nature of our society, has also amplified the importance of sound, seasoned leadership, critical thinking and principled decision-making. The wrong move can jeopardize the future of the business and the financial health of the family.

Another reason some family businesses consider an outside leader is to balance the power of multiple owners. If there are several family members (who are also owners) working in the business, the title and authority might throw family relationships off-kilter. Family members might become jealous over the difference in status, varying levels of compensation, or the ability of one family member to control the direction of financial and operational resources that affect other family members.

If you think that one of these situations applies to your business -- that you lack a qualified family member or see that elevating one member may cause significant conflict -- then beginning the discussion about a non-family leader as early as possible becomes important. The time it takes to think through what you want in a leader, the process of finding and interviewing candidates, structuring the deal and implementing a transition can take several years.

Most important, however, may be the need to get your own house in order before asking someone to step in. What will the prospective outside leader see when he or she looks at how you operate your business? Will they find a professional atmosphere



Does having your parents' DNA qualify you to be the leader of your business? Many business owners would admit that being related to one another is not necessarily a strong indicator of future business success. (DTN photo illustration by Nick Scalise)

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with regular communication and accountability, a sound decision-making process, a disciplined marketing program, clarity in roles and responsibilities, and an evaluation system for employees? Or will they encounter conflict, a lack of communication, role confusion, and a haphazard decision-making process?

From a practical standpoint, what size operation can justify professional management? That's a good question. One way to look at it is by the dollars it takes to get the talent. On the low end, salaries would range from \$150,000 and up to \$350,000 or more on the higher end, generally for the ag organizations I see. If that makes sense, then one couldn't be much lower than \$5 million to \$7.5 million in gross revenue to consider the concept. (Of course much of it depends on how you manage net income, including what kind of income comes from various other sources. Seed dealerships and oil/gas income can "cover up" inefficiencies in the farm or ranch.) The other issue is what kind of returns the shareholders are expecting and what the business is currently paying family members.

Make sure you spend time making the investments in your business that have the best chance of leading to success. While you may not be able to guarantee future results, there are many strategies you can employ to better the odds that you will succeed for yet another generation.

**EDITOR'S NOTE:** Lance Woodbury works as a consultant to family owned and closely held businesses in Garden City, Kan., with a special emphasis on business planning, mediation and conflict resolution. He also maintains an interest in his family's western Kansas ranch. E-mail comments or suggestions for this column to [lance@lancewoodbury.com](mailto:lance@lancewoodbury.com).

*(MZT/AG)*

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