Roots of the Soil: Strategies and Resources for Succession Planning

Maria Marshall & Renee Wiatt
Who are we?

The Purdue Institute for Family Business (PIFB) provides multi-generational family businesses with research-based business management resources aimed at improving personal leadership performance and driving operational growth. Our ambition is to prepare family business owners, managers, and stakeholders (including non-owner spouses and future owners) to be effective stewards of their family enterprises.
Who are we?

Maria Marshall
PIFB Director & Professor

Renee Wiatt
Family Business Management Specialist

Department of Agricultural Economics
Purdue University
If you only get 2 things out of this presentation...

1. Communicate often &
2. Plan early!
Background:
2012 Intergenerational Farm & Non-Farm Family Business Survey

Examples from the field
Most Important Business Goal

Source: 2012 Intergenerational Farm and Non-Farm Family Business Survey
Which goals are more important: financial or non-financial?

Source: 2012 Intergenerational Farm and Non-Farm Family Business Survey

Takeaway: Family businesses (most farms are family businesses) are not profit maximizers. They are driven by other goals.

Non-Financial Goals, 78%

Financial Goals, 22%
Has the Business Identified a Successor?

- Yes, 28%
- No, 72%

Source: 2012 Intergenerational Farm and Non-Farm Family Business Survey
How do you expect your business to be distributed to the next generation?

Source: 2012 Intergenerational Farm and Non-Farm Family Business Survey
I worry that my heirs can afford to purchase my family business.

Source: 2012 Intergenerational Farm and Non-Farm Family Business Survey
I plan to transfer the family business to a family successor even if it puts my own personal wealth and livelihood at increased risk.

Source: 2012 Intergenerational Farm and Non-Farm Family Business Survey
How far in the transfer process?

Source: 2012 Intergenerational Farm and Non-Farm Family Business Survey
How can your farm/family business be successful?
Stumbling Block For Family Businesses:

• Management succession!
  • Less than 1/3 of first-generation businesses fail to survive into the second generation.
  • Of those that do, only 13% make it to the third generation.
  • Result: only about 20% of family businesses last beyond 60 years in the same family.
Stumbling Block For Family Businesses

Why are the odds of succession so low?

No management succession plan!

80% of all business founders intend to pass their companies on to their children. But . . . 54% do not have a formal management succession plan!
How can you be successful?

1. Keep the business strong enough and healthy enough to last into the next generation.

2. Continue a healthy family into the next generation.
Successful Family Businesses Have:

- Shared Values
- Shared Power
- Tradition
- A Willingness to Learn and Grow
- Strong Family Ties
Pour Family Values into the Business

Farm and family businesses are unique in the fact that they have a deep-rooted history

• History and heritage hold a special place to farm and family businesses
• Communicating values can grow a strong, effective culture
• Culture can ultimately be communicated to family members, owners, employees, and customers (value creation)
• Farm and family businesses can use their historic values to guide their current culture
Translating **Family Values** into the **Business**

Family values can be:

- Translated,
- Operationalized, and
- Expressed

into the business.

Many businesses may say that they have certain values, but it is imperative to:

- translate,
- operationalize, and
- express

those values through action.

How can businesses do that?
Example: Translating Family Values into the Business

1. The family may value **integrity**.
2. Family can express the value of **integrity** to business members.
3. Business leadership can empower employees to translate that **integrity** to customers by treating customers and co-workers with respect, being courteous, and being fair in business.
4. Thus, the business can operationalize **integrity** in their business.
Family Perception of the Business

- Business as family glue
- Business as a threat to the family
- Equal empowerment
- Single leader

- Family first
- Business first
Business Strategy Formation

- Family beliefs
- Family vision
- Form of ownership
- Business strategy
Continuity Planning Triangle

- Family Continuity
- Leadership & ownership succession
- Business strategy
- Estate & personal finance
What aids in the succession process?

- **Strong foundation:**
  - Discussing goals
  - Identifying a successor
  - Educating the owner on how to start the transfer process

- **Family businesses need to focus on communication**
  - Survey: only 44% of succession transfers that had been completed were deemed as successful
What are the succession options?

In a 2012 survey of farm and family businesses, Marshall et al. found the following expectations:

1. Business assets will be liquidated (sell the business): ~27%
2. Business will be transferred to someone outside the family: ~15%
3. Business will be sold or given to family successors (intra-family succession): ~58%
Planning for Responsibility Transfer

• Usually management and ownership are passed along in sequential steps

• Time usually elapsed between initial discussion about succession and the actual handover of both management and ownership control
  • Intra-family succession is about 6.5 years
  • Transfer to employees is about 3.3 years
  • Sales are about 1.6 years
Developing a Management Succession Plan

Step 1. Select the successor.

Step 2. Create a survival kit for the successor.

Step 3. Groom the successor.

Step 4. Promote an environment of trust and respect.

Step 5. Cope with the financial realities of estate and gift taxes.
Resources for Farm/Family Businesses
Resource: FB-BRAG Assessment

FB-B  Family Business Balance
R  Resolve
A  Adaptability
G  Growth
Code Red

"Contingency Planning for Your Family and Farm Operation"

Objective: The goal of this lesson is to prepare participants to have an organized and safe place to keep critical personal and business information.

Resource: Code Red
What’s in Code Red?

Farm/Business Section
- Farm Business Structure
- Farm Finances
- Important Farm Documents
- Farm Business Contacts
- Farm Social Media
- Farm Inventory
- Farm Employment Inventory

Personal Section
- Personal Information
- Personal Social Media
- Personal Business Contact List
- Power of Attorney
- Important Personal Documents
- Non Farm Personal inventory
- Personal Investments
- Personal Medical Information
- Final Arrangements

Update as Needed
- Something new will always come up!
  - Where are your financial documents stored?

You can modify your file to meet your needs

Be sure to update at least annually and keep multiple copies
What is a succession roadmap?

Setting goals and tracking your family’s progress through the succession process

Resource: Succession Roadmap
### Roadmap Example

<table>
<thead>
<tr>
<th>Age</th>
<th>Year T</th>
<th>Year +1</th>
<th>Year +2</th>
<th>Year T+3</th>
<th>Year T+4</th>
<th>Year T+5</th>
<th>Year T+6</th>
</tr>
</thead>
<tbody>
<tr>
<td>Incumbent: Peter</td>
<td>65</td>
<td>66</td>
<td>67</td>
<td>68</td>
<td>69</td>
<td>70</td>
<td>71</td>
</tr>
<tr>
<td>Successor: Ruth</td>
<td>35</td>
<td>36</td>
<td>37</td>
<td>38</td>
<td>39</td>
<td>40</td>
<td>41</td>
</tr>
</tbody>
</table>

#### Governance Transition

<table>
<thead>
<tr>
<th>Ownership Percentage</th>
<th>Incumbent</th>
<th>Year T</th>
<th>Year +1</th>
<th>Year +2</th>
<th>Year T+3</th>
<th>Year T+4</th>
<th>Year T+5</th>
<th>Year T+6</th>
</tr>
</thead>
<tbody>
<tr>
<td>Incumbent</td>
<td>100</td>
<td>100</td>
<td>80</td>
<td>80</td>
<td>20</td>
<td>20</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Successor</td>
<td>0</td>
<td>0</td>
<td>20</td>
<td>20</td>
<td>80</td>
<td>80</td>
<td>100</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Board Management</th>
<th>Incumbent</th>
<th>Successor</th>
</tr>
</thead>
<tbody>
<tr>
<td>Incumbent</td>
<td>CEO</td>
<td>Manager</td>
</tr>
<tr>
<td>Successor</td>
<td>CEO</td>
<td>Manager</td>
</tr>
</tbody>
</table>

#### Transition of Functional Responsibilities

<table>
<thead>
<tr>
<th>Human Resources</th>
<th>Peter</th>
<th>Both</th>
<th>Both</th>
<th>Both</th>
<th>Ruth</th>
<th>Ruth</th>
<th>Ruth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business Strategy</td>
<td>Peter</td>
<td>Both</td>
<td>Both</td>
<td>Both</td>
<td>Ruth</td>
<td>Ruth</td>
<td>Ruth</td>
</tr>
<tr>
<td>Marketing</td>
<td>Peter</td>
<td>Ruth</td>
<td>Ruth</td>
<td>Ruth</td>
<td>Ruth</td>
<td>Ruth</td>
<td>Ruth</td>
</tr>
</tbody>
</table>

#### Transition Miscellaneous

| Dividend | 100K to Peter | 50K to Peter | 0 | 0 | 0 | 0 | 0 |

Adapted from: (c) Thomas Zellweger, 2016
## Roadmap Activity

<table>
<thead>
<tr>
<th>Age</th>
<th>Year T</th>
<th>Year +1</th>
<th>Year +2</th>
<th>Year T+3</th>
<th>Year T+4</th>
<th>Year T+5</th>
<th>Year T+6</th>
</tr>
</thead>
<tbody>
<tr>
<td>Incumbent:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Successor:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Governance Transition

<table>
<thead>
<tr>
<th>Ownership Percentage</th>
<th>Year T</th>
<th>Year +1</th>
<th>Year +2</th>
<th>Year T+3</th>
<th>Year T+4</th>
<th>Year T+5</th>
<th>Year T+6</th>
</tr>
</thead>
<tbody>
<tr>
<td>Incumbent:</td>
<td>100</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>0</td>
</tr>
<tr>
<td>Successor:</td>
<td>0</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>100</td>
</tr>
</tbody>
</table>

### Board Management

| Incumbent |        |         |         |          |          |          |         |
| Successor |        |         |         |          |          |          |         |

### Transition of Functional Responsibilities

| Human Resources |        |         |         |          |          |          |         |
| Business Strategy |        |         |         |          |          |          |         |
| Marketing       |        |         |         |          |          |          |         |

### Transition Miscellaneous

| Dividend |        |         |         |          |          |          |         |

Adapted from: (c) Thomas Zellweger, 2016
Resource: PIFB Website

Contact Maria and Renee: PIFB@purdue.edu
Leadership & Succession Planning

Succession Planning

Succession planning is a vital part of family business continuity. Choosing a successor and setting a plan in motion can help guarantee that the business is sustainable from one generation to the next.

Management

Whether you are managing a farm family business or a family restaurant, good management skills are essential for running a successful business. Find out more here!

Contingency Planning

It is always a good idea to be prepared for the unexpected. Whether it be the loss of an employee, loss of an owner, or an unexpected family emergency, contingency planning can help to minimize disruption for a family business.
Five Insights

1. Respect the challenge.
2. Issues are predictable, yet perspective on the same issues will be different.
3. Communication is key.
   a. Form an independent board of directors.
   b. Begin a regular process of family meetings.
4. Planning is essential to continuity.
5. Commitment
It takes time, patience, and preparation to locate a suitable buyer, strike a deal, and make the transition.

The keys are **communication & planning**!

Contact Maria and Renee:
PIFB@purdue.edu