Family Business Matters

Five Phases of Succession Planning

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(Getty Images)

At some point in your farming or ranching career, you begin to think about who will take over the business. You realize replacing yourself involves not just carrying on the tasks you perform every day but also determining control over the very asset base that provides for your livelihood. It begins to dawn on you that handing off this business might be complicated.

1. REALIZATION

Realizing the need for succession planning can be triggered by a number of events, some positive and some negative. A health crisis, accident or untimely death are perhaps the most dramatic leads into the transition. Or, it may be more gradual as your heirs choose not to return, and it becomes more difficult to find help. Sometimes, one's vocational interests simply begin to change, or you get excited about a different kind of work. Or, maybe tension with the younger generation or the emergence of differing goals with your business partners makes a transition more apparent.

Another obvious trigger is the business environment. Sometimes not making money for extended periods of time causes a business owner to decide he or she would rather do something else. For this or other reasons, you realize it is time to begin the handoff.

2. ONBOARDING

The next phase in succession involves the younger generation stepping wholly into the full-time work environment. They may know how to do the work from growing up on a family farm, but it becomes important for them to work alongside current employees as adults and develop more professional relationships with family members. In addition to being a son, daughter, nephew or niece, they become a valuable coworker or team member.

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A potential successor then moves from doing the work to managing others. This takes a shift in mindset and new skills. Motivating others, delegating and providing constructive feedback become vital competencies. It helps if they have learned some of these skills (or at least learned what not to do) by working somewhere else first, where they are not related to the boss or owner. If they haven't, finding good education and training in this phase can be invaluable for successors.

4. RUNNING

Watching younger family members manage gives the senior generation confidence in their leadership capacity. The retiring generation can step further away, handing over significant control. Here, it helps if the senior generation has

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something to draw energy or interests away from the business -- a new business venture, travel, board service, mission work or retirement activities -- in order to give the younger generation the space to lead the business without feeling watched over or constantly second-guessed.

5. OWNERSHIP

Because farming and ranching businesses are capital intensive, with equity building over generations, and because of the significant tax implications of ownership transitions, the gifting of land, equipment or entities often takes years. By the time the next generation is running the business, ownership interests should be moving down the line.

At the very least, have a clear path and expectations for how the new generation will come to own the business. Not doing so creates a number of assumptions about who the partners will be, especially if there are potential off-farm heirs. And, those assumptions are often the cause of significant stress and family conflict.

Succession involves weighty issues: mortality, identity, money, power and relationships. Business owners rarely start the process too early; the default is to keep putting it off precisely because the issues are not easy. But, thinking through succession in phases can help you identify your next steps on the path to a rewarding and successful transition.

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