Leaving a Legacy of Success and Family Harmony

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Current "Landscape"

The average age of all categories and types of agricultural producers is rising. In fact, according to U.S. Deputy Secretary of Agriculture Kathleen Merrigan there is an epidemic sweeping across America's farmland related to the fact that United States farmers and ranchers are getting older and there are fewer people standing in line to take their place.

Nationally, the latest agricultural census figures show that the fastest growing group of farmers and ranchers are those over age 65. The average age of all U.S. principal farm operators in the 2002 Census was 55.3 years of age. However, those persons who were in the beef cattle ranching and farming category had an average age of 56.7 years. This aging trend has been decades in the making. Between 2002 and 2007 alone, the number of farmers over 65 grew by nearly 22 percent.

According to a report issued by the Cooperative State Research, Education and Extension Service (CSREES), 70% of U.S. farmland will change hands by 2028. Without adequate succession planning, CSREES reports that farms are more likely to go out of business, be absorbed by larger neighboring farms, or be converted for non-farm use. In addition, research published by the Heritage Institute shows that only 10% of successful families are able to achieve family harmony and continued family wealth for three generations or more.

These issues would not loom as large if more producers developed comprehensive succession and estate plans. What happens instead is that the demands of running a successful operation take precedence over the difficult and sometimes laborious work that estate and succession planning entail – based on the assumption that "I can always do this tomorrow". This thinking is very common and probably the greatest cause of failure to plan for the inevitable.

Transitions are also difficult because the skills that it takes to build and sustain a successful production operation are significantly different than those needed to create a lasting legacy of success and family harmony.

Finally, it's human nature to put off anything that touches our self-image (who am I if not a successful producer) and our fears about our mortality.

For all of these reasons it takes motivation and discipline to develop a succession and estate plan that not only provides the kind of retirement that you want but also creates a lasting family legacy – which is entirely possible if you elevate this activity to your "top priority list" (after all, a Japanese contractor recently closed their doors after remaining in business for 1400 years!). As you think ahead, is there really anything more important than enjoying your "golden years" while leaving a generational legacy to your family and community?

The remainder of this article will address how you can address the succession and estate planning process so that you are in the "10%" who achieve lasting family unity and wealth.

The Process

The first step in the succession and estate planning process involves the owners (Generation 1). In this step Generation 1 develops mutual goals and makes sure that they agree on their values. Generation 1 also needs to create a clear picture of what the next chapter of their life will look like and when it will begin. If Generation 1 does not have personal clarity, or if the partners (which could be husband and wife) disagree, it will be extremely difficult to develop a successful transition process.

It is also imperative that Generation 1 believes that their future is secure and that their children (Generation 2) will be able to get along with each other, whether they are working in the operation or not. There are no factors that will stop a succession or estate planning process more quickly than Generation 1 worrying that their financial security is at stake or being concerned that their family harmony is likely to be compromised in the succession process.

If you are willing, stop reading for just five minutes and jot down your answers to the following questions:

1. On a 1 – 10 scale, how confident am I that I will have a secure retirement? What leads me to answer in this way?
2. On a 1 – 10 scale, how confident am I that my family will have family harmony at the completion of a succession/estate planning process? What leads me to answer in this way?

You might compare your answers with your partner or spouse's answer before proceeding any further – especially given that you will likely pause or stop the succession process until you are comfortable in both arenas.

If you are not secure with regard to financial or family harmony it is imperative that you step back and analyze what you need to gain a feeling of being secure. If your concerns are financially related you can consult a financial advisor to gain clarity. If you have a comprehensive financial skill set, or your financial issues are very simple, you could also begin to develop your own financial picture including taxation, future operational issues around renting or selling land, retirement cash flow and estate considerations.

If your uncertainties are related to family harmony or the ability of Generation 2 to successfully run the operation – keep reading.

If you are transferring operating responsibility, and eventually ownership responsibility, to Generation 2 it is critical to have a development plan that provides both support and accountability. The support component can include coaching, mentoring, the participation of Generation 2 in outside trade or community organizations, additional formal education or any/all of the above. The accountability component is equally important and should address how the family member is held accountable - including how this family member will be tested in a graduated manner from easy to difficult. Only through this process, which requires some stepping back on the part of Generation 1, will you truly know if Generation 2 has both the ability AND the motivation to successfully step in to your shoes. Additionally, often both generations forget that Generation 1 was able to "grow with" the organization while the organization was growing but Generation 2 is stepping into a successful and often complex operation. This is a key point that needs to be understood by Generation 2 as you help them develop a leadership development plan.

This discussion of transition would not be complete without mention of "fair versus equal" in the estate planning process. Sometimes either mom or dad wants the children who are outside of the operation to be treated exactly the same as those inside the operation, meaning that the assets are divided equally. In some cases there is a desire by Generation 1 that an equal amount of total assets is distributed to each child but using different asset categories for operators versus non-operators. In other cases at least one Generation 1 family member wants to see the operator get more total assets to honor their contribution in building the operation. While there is no quick and easy answer to which solution is best it is important to get the "fair versus equal" issue out in the open before Generation 2 children are thinking about transferring to their own children. Questions that can help guide this decision include:

- Where would the operation be without the help of Generation 2? Exactly what did they contribute that an excellent farm hand would not have contributed?
- Have the children who work in the operation received free vehicles, free housing or other significant perks? On the other hand, have they been paid less than his or her position deserved?
- Has the on-farm child made sacrifices to work on the farm that other children were unwilling to make?
- What expectations have been established within the family – if any?

Ultimately there are no easy answers but a thoughtful approach coupled with good communication can be very helpful in creating a fair and accepted solution.

<u>Communication and Clarity</u>

Good communication is one of the most talked about AND under-utilized tools to transition the operation successfully. Although everyone seems to agree that good communication is essential, both to transitioning the business and also to operating it effectively and having family harmony, it is a very rare family that gets a perfect "10" on this scale. The reason that good communication is so important is that it leads to better decisions through greater input, it lowers conflict, and good communication makes for a much less stressful work and family environment. One resource that we often use with clients is the *Crucial Conversations* book; a highly readable and practical guide to helping families hold "high stakes" or "crucial" conversations. This book explains that individuals tend to slip into one of two ways of communicating when there is conflict. Either a family member goes into "silence" by not speaking up or they go into "communication violence" – speaking up loudly, harshly or trying to steamroll other family members. In either case the important issues do not get the careful consideration, or the necessary buy-in, that are demanded if the issue is to be resolved. Being able to start and hold high stakes conversations is the hallmark of the most successful business operators, and the happiest families. This is true across industries and across generations.

<u>Roles & Responsibilities</u>

Another key element that is necessary for a good transition is having clear and distinct roles and responsibilities. By doing this you leverage the strengths of those who work in the business and you prevent the conflict that is generated by having overlapping roles. This is especially important in the transition process as one generation steps back and another generation steps forward. By developing clear, understandable and accountable job descriptions family members and employees understand their part in making the business successful. These job descriptions should also provide clarity regarding how decisions are made and by whom.

<u>A Succession Process</u>

To help you understand one way to move through the succession process I have outlined a process that can be used for your operation whether it is small or large, simple or complex. If you do have either operational complexity or "human dynamic" complexity you may consider using an outside advisor to help you through this process, or a similar process. One cautionary note is necessary regarding how to choose an advisor for the transition process. First, it is important to state that we deeply believe that financial and legal professionals are critically important in a successful transition. We also have seen that many of these advisors are not able or willing to go into the "human dynamics" elements as deeply as needed to get a satisfying long-term solution. This means that a "best practice" strategy is to use a multi-disciplinary team with different areas of expertise available to help you.

A good first step in what we call the *Phase 1 Diagnostic* is to hold in-depth interviews with <u>all</u> Generation 1 and 2 family members – including spouses. You may want key employees interviewed as well depending on their tenure and role. These interviews provide a great deal of useful information related to goals, values, work ethic, strengths and issues.

We also recommend the use of respected and tested online assessment tools that discover how each person makes decisions, communicates and relates to others. Good tools also assess current stress levels and they can be formatted to create "teams" of different individuals and their likely interaction patterns. These assessment tools help fill out the emerging picture that is gained from the interviews.

Another piece of the diagnostic puzzle involves the analysis of key business and personal documents to make sure that they are up to date and that these documents reflect the desires of all of the parties. For example, when we are working with clients on a Phase 1 process we often discover either non-existent or outdated Buy-Sell agreements. This can be a critical oversight. For example, we have seen Buy-Sell documents with out of date or unreasonable valuation methods, agreements that did not cover some of the key contingencies and some agreements that did not even include recent family members who had joined the business. We also find that wills are often out of date and do not fully represent the owner's wishes. Lastly, the financial statements, ownership documents, and, if you have them, strategic or operating plans should be reviewed.

The above information can be analyzed and then developed into a Diagnostic Report outlining where your family fits on key succession areas including strengths, issues, differences of opinion, opportunities and gaps.

Once a comprehensive process is completed it becomes clear whether the family can address the report items on their own or if they need to hire an advisor to help them implement the necessary work.

Next Steps – Don't Wait for Life Events To Trigger Action

Sometimes it takes what we call the *Dreaded Ds* for an owner or family to take action:

- Death
- Disability
- Disputes,
- Daughter-in-laws (equally son-in-laws but son doesn't start with a D!)
- Disruption – business or family

Waiting for one of these triggering events to occur before you take action not only limits your choices but often requires that you make decisions during a time of stress and confusion. While these are difficult decisions on a "good day" it is much harder to choose wisely on these critically important matters under conditions of high stress. .

Since the best time to plant a tree is twenty-years ago, and the next best time is today, please accept our challenge to take action and do something as a result of reading this article. This can be gaining personal clarity, talking to your spouse or other family members, calling an advisor or taking some kind of action that moves you in the right direction. Because even though it seems like you can put this off until later – tomorrow is coming!

For additional resources see: www.tomorrowiscoming.