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Succession Planning - Taking Inventory / Crucial Conversations

Dick Wittman, Wittman Consulting

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“Built to Last”



Opportunity to Reflect on:

- Core values & vision
- Value of planning
- Defining clear roles
- Setting clear policies
- Professional meetings
- Financial frugality
- Quality feedback

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One Speech, 1000 Titles

- Are You Getting A Passing Grade in Farm Management?...Building the Road to Excellence
- Positioning Your Farm or Ranch for Business Succession
- Managing Family Business – *Putting Talk into Action*

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Biosketch

- Ag Lender – FCS (1972-1980) – Spokane, WA & Washington, DC
- Partner in 20,000-acre diversified family farm business (1980-2017)
 - **Jan. 1, 2017 – Board Chairman/Transition Coach/Support Role**
- Farm management consultant (1980-present)
 - Farm family transitions and formalization of governance structures, financial planning, managerial accounting, process improvement, consultant training
- Industry boards/affiliations
 - Farm Financial Standards Council – Past President
 - PNW Direct Seed Association – Director, Past President
 - Director – numerous commodity group and bank boards
 - Faculty member – TEPAP Program (fin mgmt. & process improvement); Texas A&M King Ranch Institute (MA)

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Wittman Farms - Overview

- 20,000-acre grain, cattle, timber and wildlife operation
- “In transition” since 1980
 - Father and two uncles (Gen II) built business foundation
 - 3 of 25 Gen III cousins continued in the business
 - 12 transition events in 40 years
 - 3 active principals active today



WF Ownership & Management Transitions

O	M	1938	Gen 1 patriarch dies at age 49; two sons assumed management control
O		1980	Gen 2 “Wittman Bros” began ownership transition with stock transfers & contract buybacks to Generation 3 cousins
O	M	1983-85	Two senior owners retired; completed buyout contracts CEO and management duties transitioned to Gen 3
O		1987	Brother disabled; executed buyout
O	M	1994	Retired final Gen 2 uncle and executed buyout Added two new Gen 3 partners to labor and ownership team
O	M	2007	Gen 4 nephew joined labor/management and ownership team
O		2008	Gen 3 partner resignation; executed buyout
O		2009	Continue ownership transition to Gen 4
O	M	2013	Gen 3 partner retirement; executed buyout; expanded Gen 4 roles and investment levels
	M	2015-16	Gen 3 CEO retirement on the horizon, began transition of duties
	M	2017	CEO baton passed to Gen 4; transition of CEO to Board Chairman
O		2018	Executed reorganization and Board Chair buyout

Agenda - Succession Planning

- Taking inventory of your current personal and business situation
- Defining and executing critical conversations that must take place among key stakeholders
- Identifying issues where action is needed and formulating alternative scenarios for execution

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Wittman's Rule:

For transitions to be successful...***there must be alignment of expectations!***

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Three Stages of Family Business

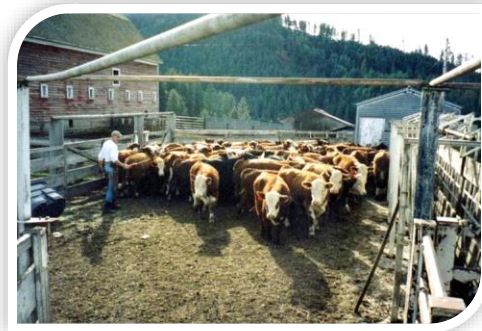
From John Ward's *Perpetuating the Family Business*

- Stage I – Owner-Managed
- Stage II – Sibling Partnership
- Stage III – Cousin Collaboration
- Cold hard facts
 - 30 years ago – 5-10% run by siblings
 - Now: 50% owned/run by brother/sister groups
 - 1/2 family businesses fail to go to 2nd generation
 - 90% fail to pass to the third generation

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Proverbial Wisdom

“It will never work. These family deals never last.”



Destiny ... or Choice?

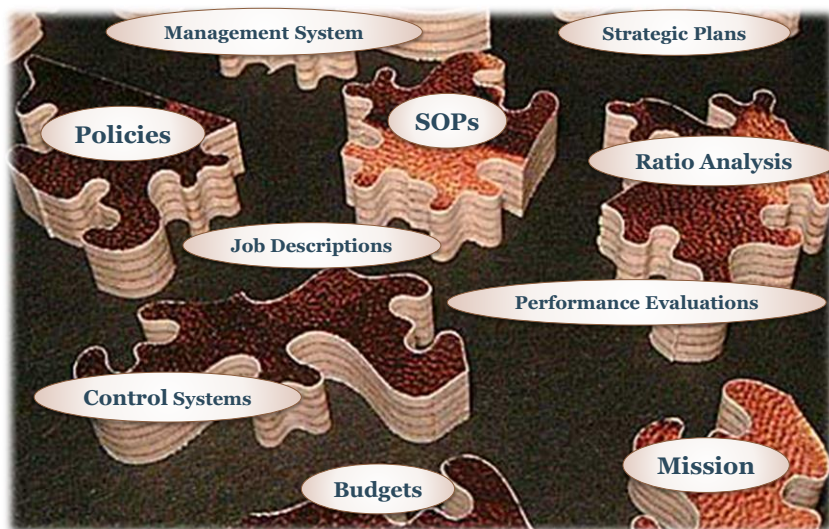
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Get your hankie out!

- Is professional management/communication “necessary evil” ... or “critical asset” for family business viability & continuity?
- Tragic stories ... “*Predictable Surprises*”
 - Mom & dad with 4 sons and a dream of succession
 - \$150,000 in attorney fees to split the sheets - Alberta
 - Cousins - cattle dispute/shootout - 2 dead
 - \$600,000 in lost efficiency to divide partnership
 - 13 areas where family lacked alignment in expectations
 - Grandkids at farm sale closing

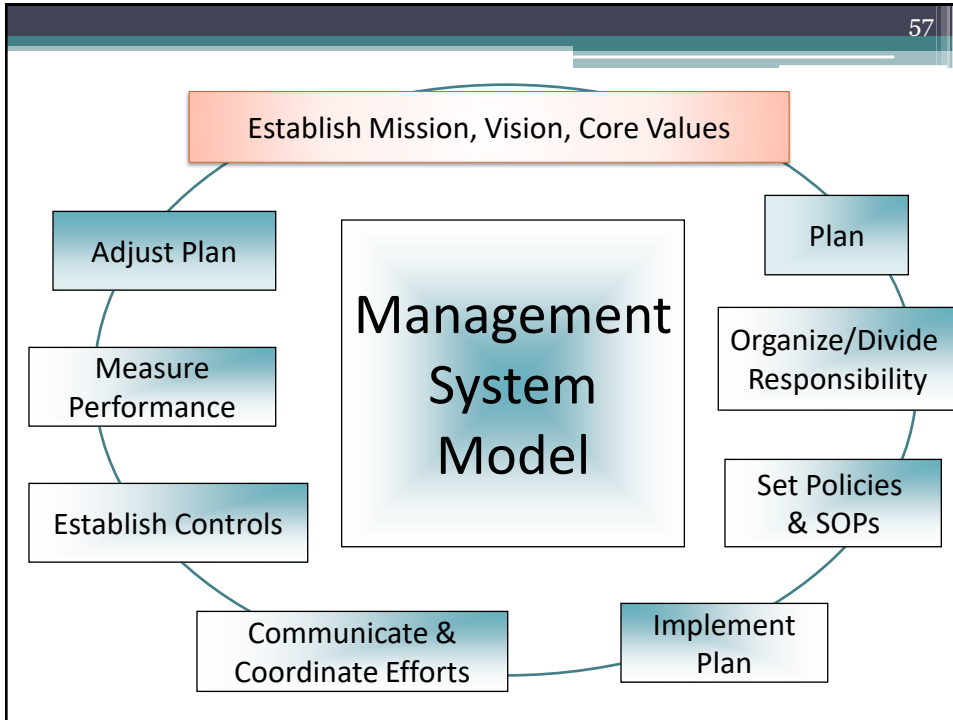
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Describe how your business is managed TODAY.



Successors need to know what they're getting into.

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Mission and Core Value Statements

- Only 33% of ag businesses define this!
- Consequences: Team can't agree/focus on:
 - Mission – business product or service, primary customer & key objective
 - Vision – end point if you succeed
 - Values & Philosophy – ground rules
- Put in writing and post visibly on farm

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Wittman Farms Mission Statement

Produce high quality grain, livestock, timber and recreation for U.S. and foreign customers assuring:

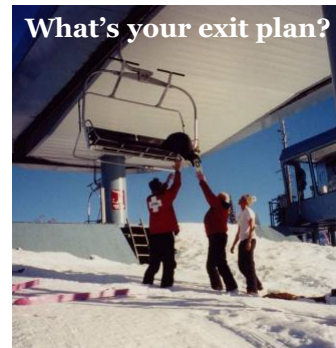
- fair rate of return on invested resources
- safe and fulfilling environment to work and live
- sustainable income for future generations.



Our Vision

Our Mission Will Be Accomplished When...

- Complete careers with financial security and value our family and business associations
- The business grows, adapts, and remains financially viable
- Capable successors are carrying on our heritage



← Not everybody's goal
 Story: father & 2 sons
 ← Re-define SUCCESS

Operating Philosophy/ Core Values Statement (excerpts)



- Strive for excellence
- Be early adapters
- Committed to professional management
- Open and professional communication
- Environmentally conscious methods
- Quality records openly shared

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Common Conflicts - Core Values

- Always be leading edge...
 - “If ain’t broke, don’t fix it”
- Maximize profits (live for today)
 - Maximize long-term economic and environmental sustainability (live for tomorrow)
- God & family first
 - Business first; God and family can wait
- Professionalism always expected
 - Professionalism OK when I’m “in the mood”
- Everybody should be equal – “Entitlement rules!”
 - Pay and position should be based on skills and performance

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Culture Audits

- Do you measure how you're doing?
- Try a **Culture Audit**
 - Highlight core values and best practices
 - Score business on Living it... vs. Aspiring to...
 - Team discussion on results, causes of poor scores and action plan to improve

Culture audit 2019-WF

Please rate to what degree you believe we (as a team) are living out our stated values.

- 1 = aspire to it but don't live it
- 2 = seldom do we live it
- 3 = we live it about half the time
- 4 = we live it fairly consistently
- 5 = we live it completely

Wittman Farms Culture Audit

	1	2	3	4	5
• undertaking our efforts with excellence and teamwork in mind in all phases of our operation					
• valuing the contributions of our employees and recognizing them with professional treatment and competitive compensation					
• pursuing new technologies and strategies to improve our efficiency and profitability					
• striving for excellence in safety, conservation and stewardship that will maintain or improve farm productivity and make it a safe and fun place to work and live.					
• operating under a planned approach as opposed to a day to day reactive approach to management and decision-making.					
• clear division of responsibility with mutual respect and support for each others roles.					
• making decisions based on sound business practices that are considered standard in similar businesses or arms-length elsewhere where non-related parties are working together.					
• documented operating and personnel policies to guide decisions and prevent misunderstanding.					
• maintaining a balance between profit and quality of life. Employees are encouraged to pursue personal interests such as recreation, church, community service and other activities, as long as they do not adversely impact our obligations to the business.					
• paying a competitive return to labor and management and assuring the balance of the earnings accrue equitably to the owners as return on investment.					
• open and honest communication. Periodic meetings will focus not only on planning workload, but also on how we are functioning as a team in accomplishing our efforts.					
• maintaining good records. Good records require accurate input from all concerned and are shared openly with all key principals.					

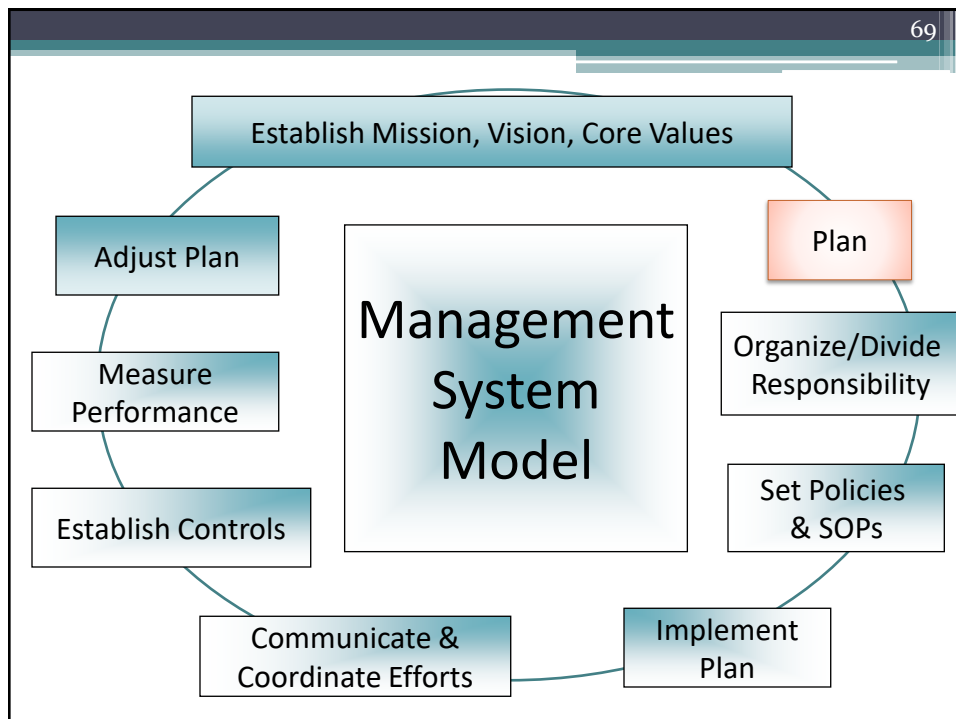
Vision & Core Values

Consequences of “Bad Chemistry” and Lack of Consensus

- Manage for “today” vs. “Long run”
- Make rules on the go
- End Result:
 - At each other’s throats!
 - Chase successors away
 - Sever business & family relationships
 - Run business aground



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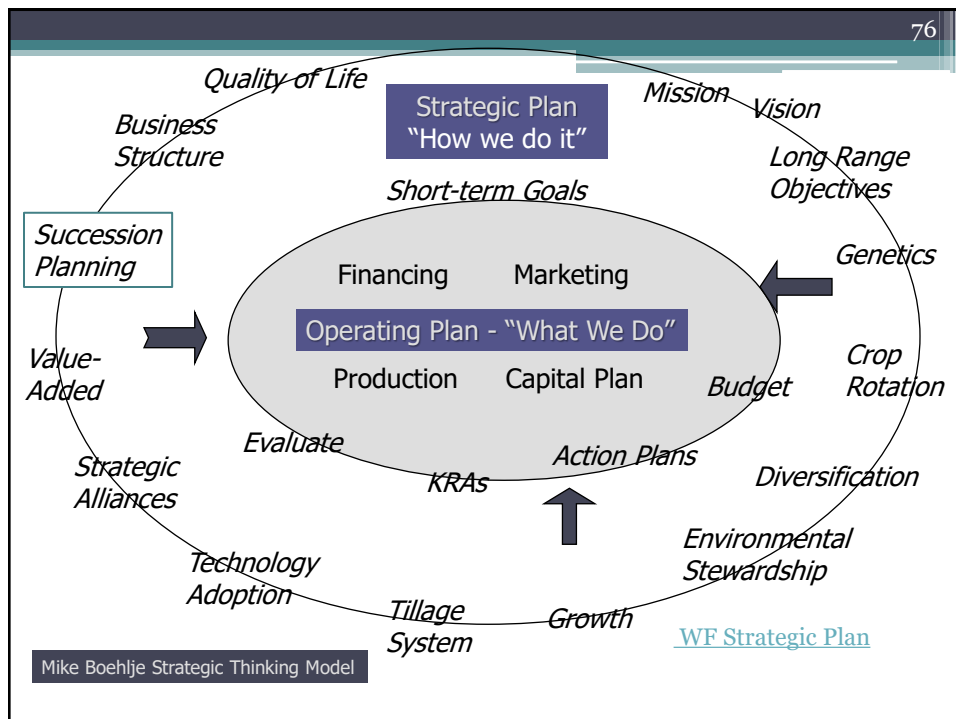


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“Simplify” Planning and Understand “Inter-Relationships”

- Operational or annual planning
 - Production Plan
 - Marketing Plan
 - Capital purchases and sales
 - Debt financing arrangements
- Strategic or long range planning

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Are these strategic issues defined and assessed periodically?

- Growth
- Business structuring
- Estate & retirement planning
- Transfer of ownership/management
- Capital improvements/replacements
- New enterprises or enterprise shifts
- Manpower Planning / Personnel Development
- Governance & Management System Refinements
- Strategic Alliances & Joint Ventures
- Environmental Stewardship
- Tillage strategies – Conventional, No till

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Succession Planning

- Starts with “mission, vision, values talk”
 - Business continuation or liquidation?
 - Management and ownership transition
- Deals with who will be involved, tactics, timing, legal agreements (buyouts), duty transitions, family employment policy, compensation, etc.
- ✓ “Business Life Planning”

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Estate planning

- Financial Wealth analysis - estate tax risk; liquidity coverage; insurance needs
- Capacity to provide retirement security
- Capacity to distribute wealth - now vs. later
- Investment strategies - post retirement
- “Death Planning” - final instructions, distribution of personal assets, health care directives
- “Why I love you” LIST - location of critical documents, passwords, etc.

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Lack of Professional Planning

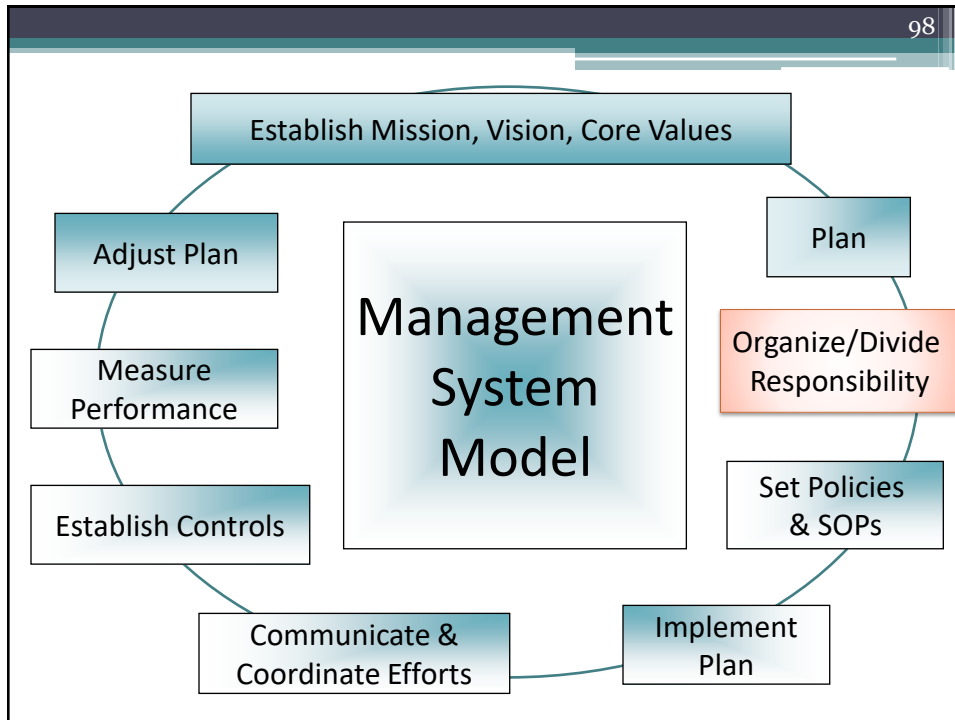
...consequences

- Unexpected outcomes
- Outdated strategies – can’t compete or exploit opportunities
- Don’t optimize decisions – purchase vs. rent vs. hire/share
- Anxiety & stress destroy business teamwork & extended family



**ESPECIALLY TRUE IN
SUCCESSION!**

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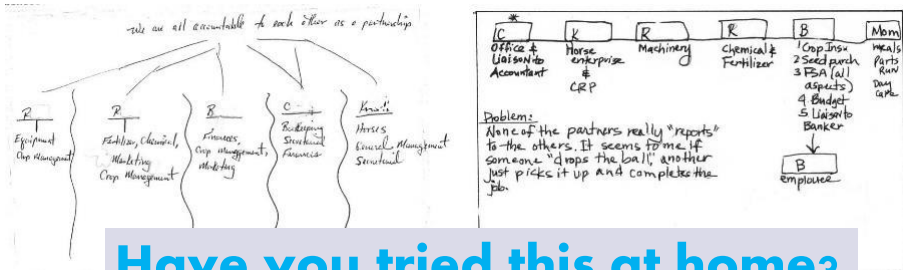
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Who should be on the bus, and where do they sit? *Good to Great* by Jim Collins

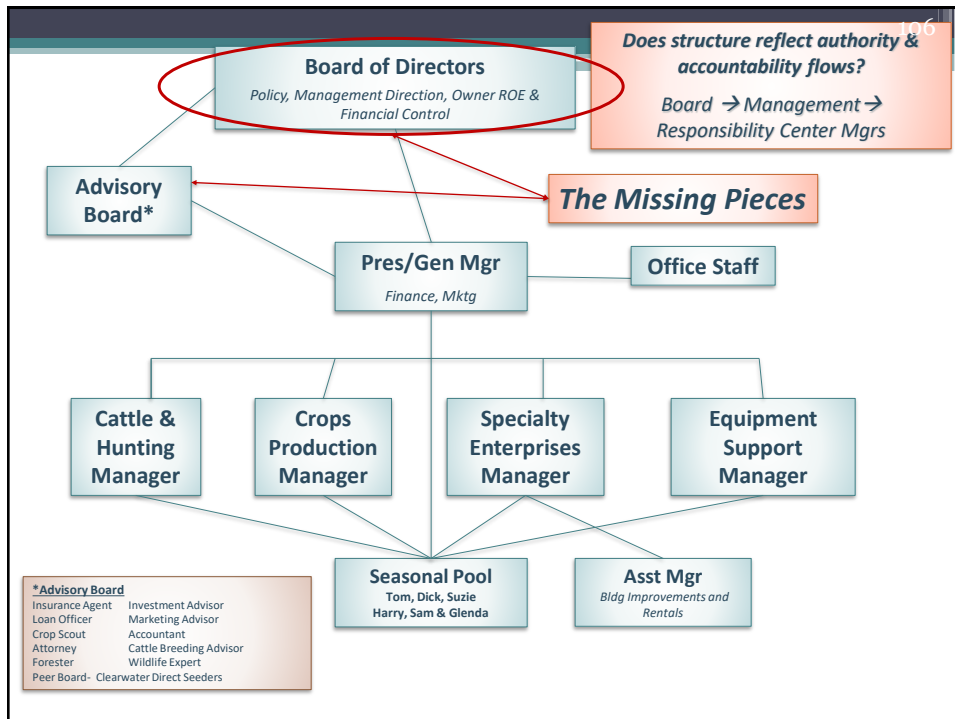
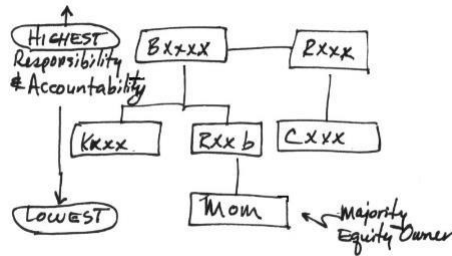
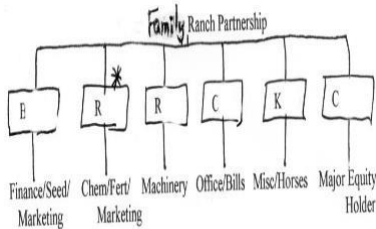
- How are you organized today?
- What will organization look after transition?
- Criteria be for filling “vacant slots”?
 - Skills, abilities, passion vs. “I’m family; I’m owed a job”
- How do you pass the baton?
 - Duty statements review, timetables for transition, apprenticeships, OJ training
- How does old guard get out of the way?
 - Board chairman vs. CEO (“boss”)

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Have you tried this at home?

What does your organizational structure look like?



Is career path apparent?



Board
Chairman

CEO

Asst Mgr

Grunt



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Why Write Job Descriptions?

...you can't delegate what you can't define!

- Pinpoints accountability for team members
- New hires – focus on skills and qualifications
 - “I’m family...I’m owed a spot here.”
 - vs. **Do we have a vacancy to fill?**
- Basis for performance appraisal
- Retirement transition tool
 - Helps focus on key decisions of exiting member
 - Checklist for training, delegation, and validation
 - 56 DUTIES listed in Guidebook

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Position: President/General Manager

Administrative Responsibilities

- Coordinate operational & strategic planning
- Organize work force
- Staff (recruit, hire, train) and assign responsibilities (job descriptions)
- Coordinate workflow
- Administer communication, evaluation, control systems
- Execute contracts
- Provide information and policy input to board of directors

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Avoid “Bossing Tendency” Define Attributes of Ideal Manager



Rain break weaning calves

- Facilitator...not boss
- Empowers people...doesn't micro-manage workload
- Focuses on people, resources, information, technology
- Promotes teamwork, positive thinking and professionalism
- Willing to be accountable to the “board of directors”

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Role of Board of Directors

- Setting Policies
- Determining strategic direction
- Hiring, directing, evaluation & compensating management
- Maintaining financial control
 - Reviewing performance
 - Exercising “due diligence”

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T-R-A-N-S-I-T-I-O-N

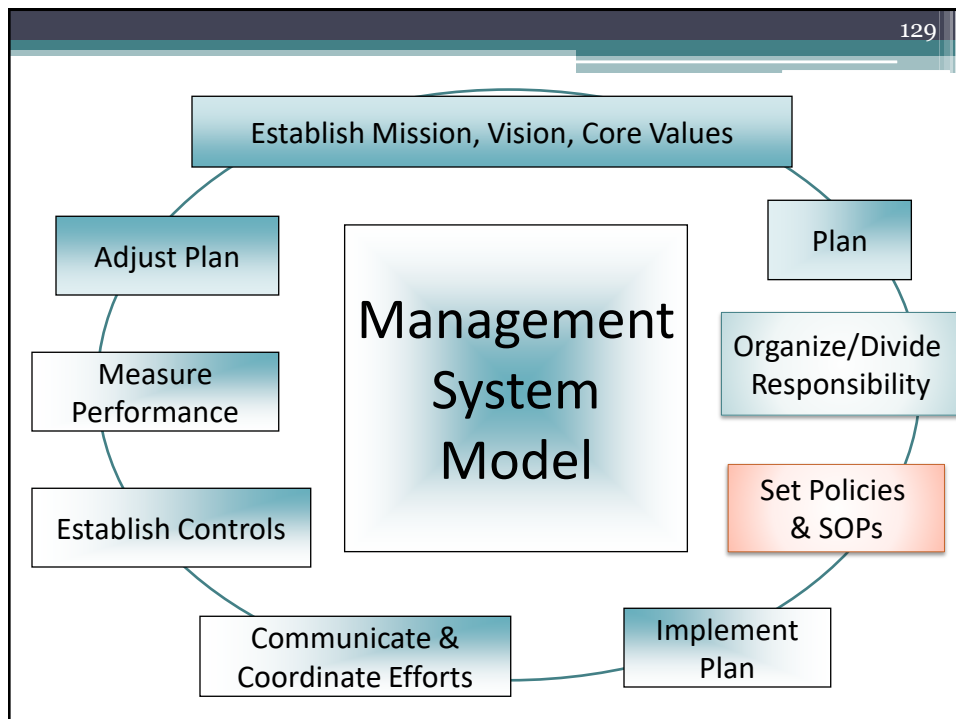


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Retiring CEOs - Workshop Take Homes

- Professional governance structure key to getting next gen involved...especially if off farm owners involved
- Formalizing org chart key to defining path for next CEO; transparent board takes pressure off CEO being on top
- Transition NOT same as retirement; put “2nd Mountain” on radar screen – David Brooks
- Write it down to make transition succeed
- Boards only effective if professionally run (agendas, right participants, regular schedule)
- More formalized strategic planning process needed
- Management audits, culture audits, CEO performance evaluations critical
- Develop policy before the need

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Policies and Practices

Do policies and SOPs attract and retain successors?

...OR chase them away?

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Are Policies Written Down? ...Common “Land Mines”

36% do!

- Housing
- Company vehicles use
- Room and board
- Expense accounts
- Setting compensation
- Family Business Investment & Withdrawals Policy
- Insider/inter-entity transactions
- Family Employment Policy
- Medical benefits
- Retirement plans/pensions
- Business benefit continuation
- Workdays and holidays
- Vacations, sick, business leave
- Buyout Understandings
- Outside activities

Ask each member of farm management team to write down understandings...then compare notes. (see Questionnaire)

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Salaries, Wages & Bonuses

- Officers / Partners
 - Monthly draws
 - Annual salaries, bonuses

- Full & Part-time help
 - Who determines pay scale?
 - What is the pay cycle?
 - When is a bonus appropriate?

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Compensation Summary		Name:	Jill Indispensable Hired Help		
		Year:			
	Period	Rate/Mo	No Mos.	Yearly Total	
Salary	Nov-Feb	\$2,500	Base 3	\$7,500.00	
		Rate/Hr	Hrs/Mo		
Wages	Mar-Oct	\$12.00	250	9	\$27,000.00
Cash Salary & Wages Subtotal:			\$34,500.00		
Employer Pd Soc Sec/Gov't Retirement % Rate:			7.65%		\$2,639.25
		Rate/Mo			
Housing		\$850.00	12		\$10,200.00
Utilities - Power, Phone,etc		\$250.00	12		\$3,000.00
Meal Allowance, Groceries		270 days @ \$4.00/day			\$1,080.00
Beef, Farm Produce		1/2 beef - 350# @ \$2.00/lb			\$700.00
Board 2 extra horses		\$60.00	12		\$720.00
Medical Insurance		\$600.00	12		\$7,200.00
Uncovered Medical Reimbursement					
Other-					
Commuting Pickup					\$4,000.00
Other- Auto Insurance, gas, maint.-	Spouse & children				
Other-					
Total Wage and Benefits Value (Items 1-7)					\$64,039.25
Bonus- Based on Yearend Results					\$4,000.00
Retirement Contribution @				7%	\$2,415.00
Total Compensation:					\$70,454.25

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Total Hours Worked Per Year	2700	270
	(excl bonus & ret.)	(incl bonus/ret)
Total Compensation per Hour	\$23.72 (line 8/line 11)	\$26.09
Total Compensation per Day	\$ 237.18	\$260.94
Total Value of Non-Taxable Benefits (Items 4-7)		\$26,900.00
Non-Taxable Benefit Analysis @ Tax Rate:	43.15%	30.15%
Pre-Tax Wage Equivalent (Line 12/(1-TaxRate))	\$47,318	\$38,511
Total Tax Savings (Line 13-Line 12)	\$20,418	\$11,611
Tot. Pre-Tax Wage Equivalent -(Line 9c + Line 14)	\$90,872	\$82,065
" " " " " - Per Hour	\$33.66	\$30.39
Tax Table Summary	High Rate	Low Rate
Federal Tax	28.00%	15.00%
State Tax	7.50%	7.50%
Social Security Tax	7.65%	7.65%
Total Tax Rate	43.15%	30.15%

→What do you think you cost your business per day...per hour?

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Survey Results - TEPAP 2023

	Median	2003-'20	2023
Total Value of Compensation		\$80,386	\$98,830
Total Non-Taxable Compensation		\$17,330	\$21,959
Est # Days Worked Per Year		299	286
Est # Hours Worked Per Year		2,899	2700
Total Pre-Tax Salary/Wage Equiv*		\$91,309	\$130,141

*At 36% tax rate

	Per Day		Per Hour	
Total Farm Package Value	\$269	\$346	\$27.85	\$36.60
Pre-Tax Wage Equivalent	\$305	\$455	\$31.60	\$48.0

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Family Employment Policy

- Components to keep professionalism in the family business
 - Vacancy requirement & skills required before hiring
 - Economic capacity analysis to support hire
 - Prior experience/training required; apprenticeships
 - Supervision and reporting relationships/nepotism rules
 - Consultation of stakeholders required before hire
 - Correlating compensation/bonuses with responsibility and performance
 - Merit vs. paternalism as criteria for hiring and advancement
 - Avoiding discrimination - family vs. non-family employees/owners
 - Policies on pre-nuptials

“...Policy before the need”

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Family Business Investment and Equity Withdrawal Policy

Components of Policy

- Who is welcome to invest in farm/ranch?
- Waiting period to become an investor?
- Should everyone be equal?
- Minimum capital to leave invested? *“Can I ever get my money out?”*
- Is revenue sharing tied to ownership ratios?
- Compensation for excess balances?
- Who monitors capital balance compliance with legal agreements?

Stories...Australian & Montana partnerships


(See Wittman Guidebook – Chapter 6 – Sample Templates)

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SOPs and GAPs

30% have these



- Not something new!
- Purpose: guidance documents for repetitious or routine jobs
 - Training tool – new hires
 - Leverages communication for multiple employees
 - Assures jobs are done following BMPs, GAPs
 - Increases safety & lowers cost of production
 - Baseline for measuring job performance, auditing
 - BONUS: Value Added Revenue (ISO9000, Food Alliance)

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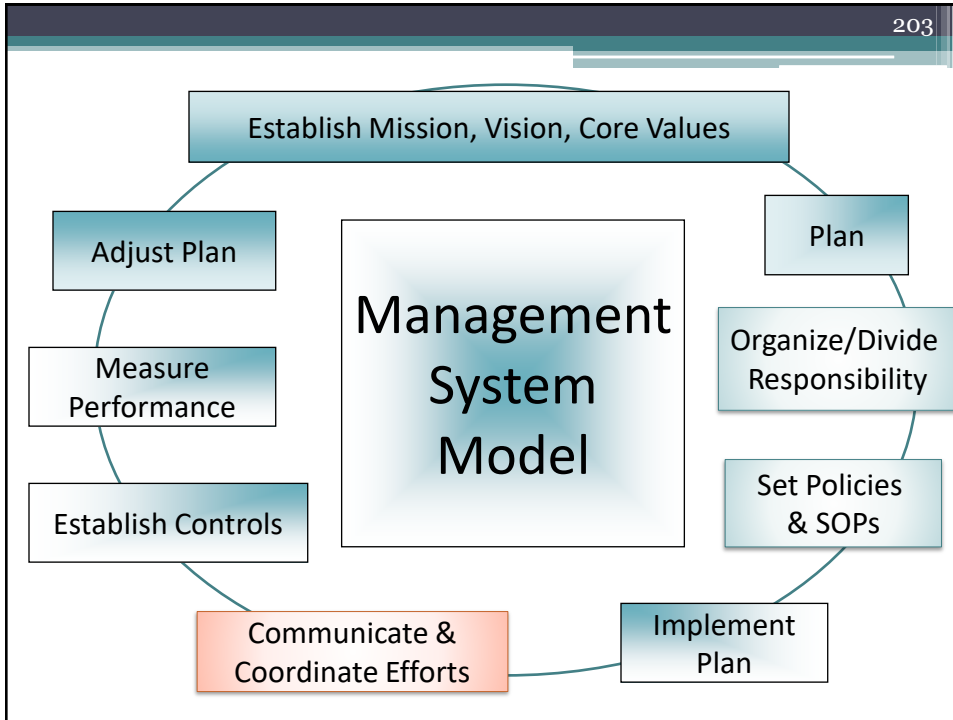
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Common Applications of SOPs

- Equipment servicing and operating instructions
- Crop agronomic and harvest procedures
- **Farm safety guidelines**
- Food safety practices
- Herd health procedures
- Office functions
- Stock handling procedures

www.wittmanconsulting.com → Downloads:
[Process Improvement Checklist](#)

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Communication Systems

Do you:

- Agree on rules for communicating professionally?
- Invest in understanding personality styles? **Poll Group**
- Share records openly? **40%**
- Hold Regular Meetings – Staff, Mgmt, Owners, Family? **42%**
- Documentation key understandings? **31%**



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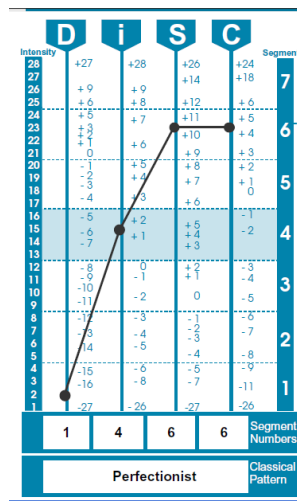
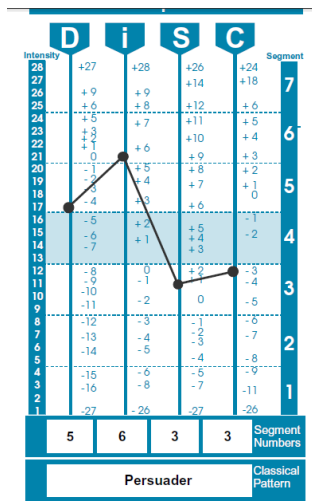
Communication Challenges Family Farm Businesses

- Don't think business rules apply
- Family status trumps business roles
- Expected "unprofessional" to be tolerated
- Don't consider impact of personality style differences

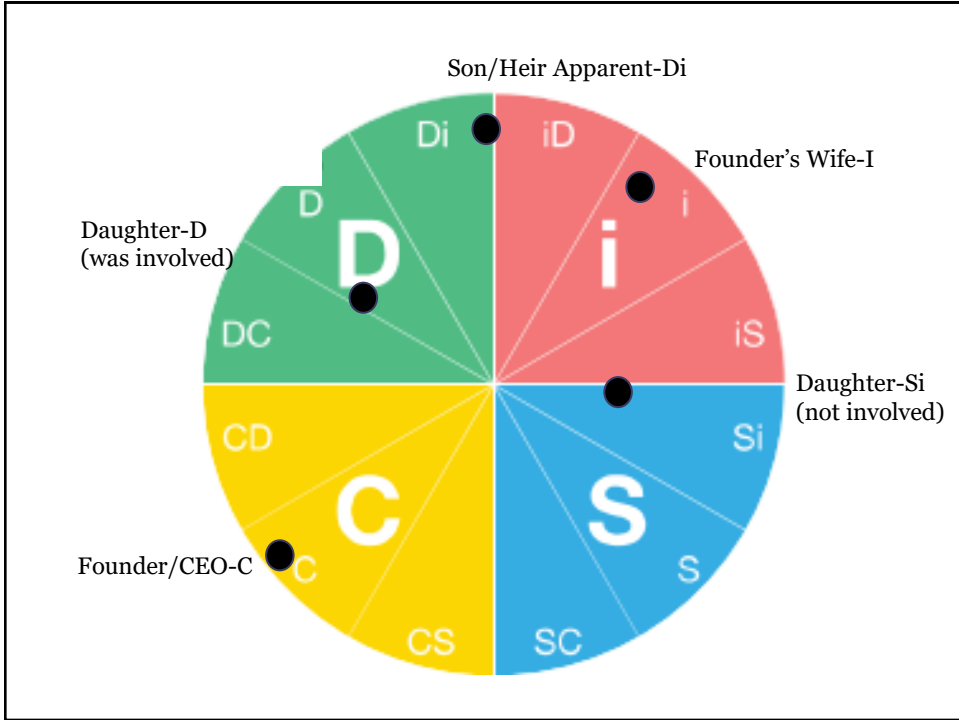
“The single biggest problem in communication is the illusion that it has taken place.”
- George Bernard Shaw

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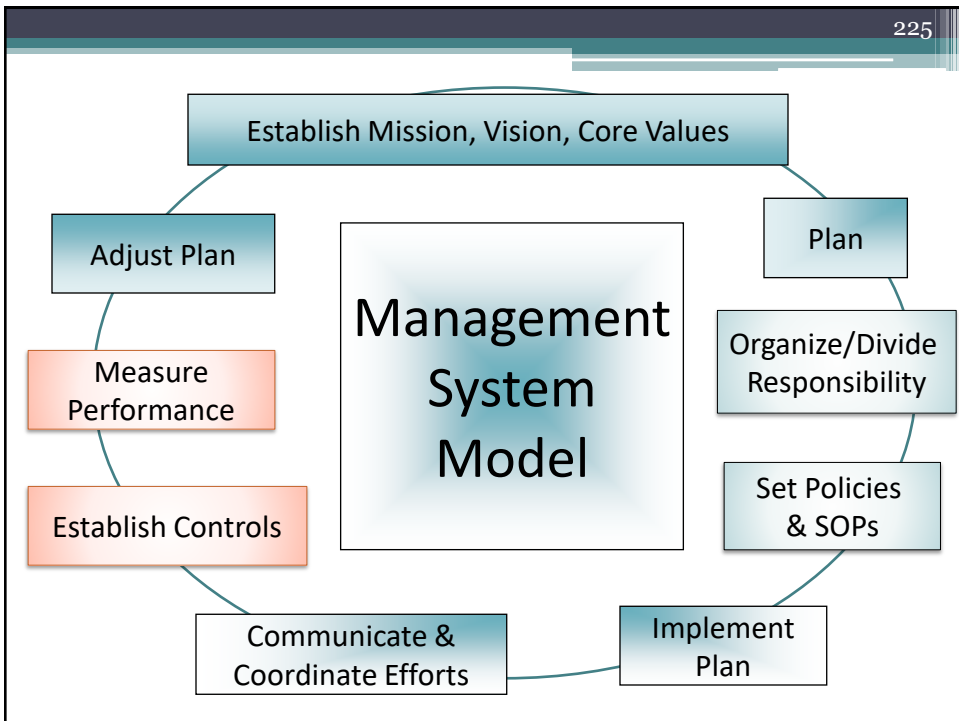
What's your DiSC dimension?



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Management Control System *Key Elements*

- Comprehensive Financial Record Review Process
- Regular Performance Reviews – Individual & Farm Business
- Ongoing Training & Professional Development
- Use of Outside Advisers
- Good audit and internal control systems

"We manage what we measure."

"People do what is INSPECTED, not what is EXPECTED!"


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Financial Management Best Practices ...Score Yourself on These

- Cash versus Accrual Net Income
- Tax vs. economic depreciation
- Cost versus Market Value Balance Sheet
- Deferred taxes
- Cost/unit to produce each marketable commodity
- Why paying tax is a GOOD THING TO DO
- Cashflow Budgeting & Pro Forma Income Projections
- Trend analysis–Key Ratios, annual reports
- Using models to optimize Capital Asset Acquisitions
- Capital Debt Repayment Capacity

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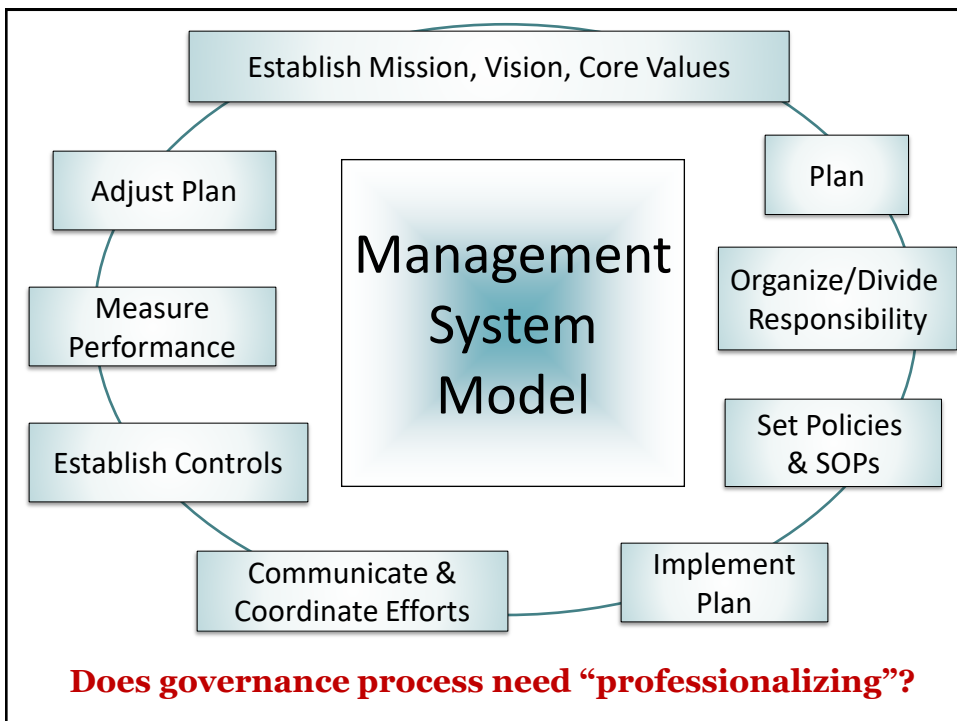
How do we avoid tragedies?

...put management process in writing!

- Define vision, values & management process that takes you there
- Put right people with right talents in right seats
- Separate the “train tracks” – ownership vs. labor/management
- Reduce retirement fear – extend career path for patriarchs & groom successors
- Set goals & develop strategy to reach targets
- Implement professionally; engage advisory team & peer networks
- Commit to accountability – review performance *regularly & honestly*



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Goals of Today's Comments

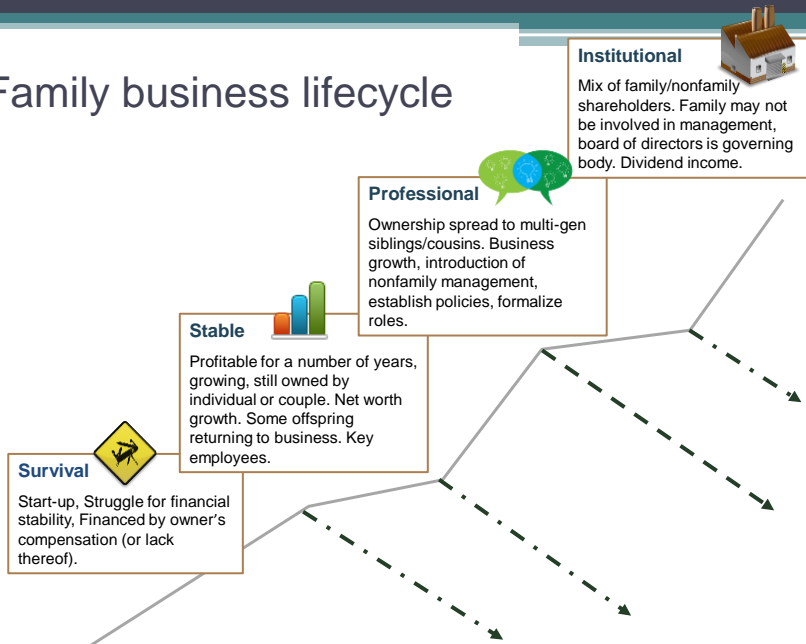


Time to Head to the Barn!

- Identify critical conversations & issues
- Show path to
 - Build knowledge for yourself and advisory team
 - Implement professional governance structures & transition plans

Stories: "Iowa Fireman" ... "Australian MBA"

Family business lifecycle



Source: Lance Woodbury

Farm Management Proficiency Test

This test is designed to highlight the key proficiencies considered essential to successfully manage a family farm business. Farmers, teachers, advisers, and bankers can use this test to assess strengths and weaknesses, develop curriculum and implement training and self-improvement programs.
 (Note: This test does not address basic production management proficiencies.)

Key Proficiency Areas: (Place an "X" in the column that applies.)	In Place Now	Working On It	Need It	Don't Need It
Management System/Personnel Administration				
1. Mission, Vision and Core Values are defined for the business.				
2. Farm History is documented (incl. narrative & financial trends).				
3. Goals and Objectives (Long and Short Range) are defined.				
4. Operating Plan addresses Production, Marketing, Financing, and Capital Purchases/Sales Plan and is compiled into an annual Cashflow Budget Projection.				
5. Strategic Plan identifies "Strategic Issues"* for the business and, at least annually, updates strategies and action plans for achieving strategic goals. (* Estate planning/succession, business restructuring, expansion, diversification, in-sourcing vs. outsourcing activities, value added, equipment and facility replacement, enterprise mix, financial capitalization, stewardship, strategic alliances, tillage strategies)				
6. Responsibility is clearly divided and each partner and employee has a job description outlining duties, responsibilities & authorities.				
7. Personnel policies* are written and communicated to employees and spouses (* Including: housing, meals on premises & utilities; medical/life/disability insurance; buyouts; inter-entity transactions; vehicle fuel, insurance and maintenance, retirement plans, vacation and sick leave, setting compensation, business expense reimbursement, etc.)				
8. Standard Operating Procedures are documented for repetitive				

Start by taking inventory...

Who can help?

- Tap certified facilitators and resources
 - Farm Journal Legacy Project
 - Succession planning websites
 - WCS Consulting Contact list
 - Family Business Institute
- Wittman Guidebook
 - Updated 2021 – Online + Hard copy
 - 50 editable templates for documenting governance and succession processes



Make study of Family Business excellence a lifelong journey

Our Future



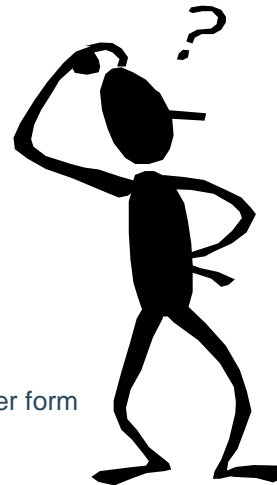
Our Secret to Success:
*Multi-generational
commitment to a
professionally managed
farm business*

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Time to put talk into action!

Coming up next...
Breakout Session: Case Study Workshop



Free resource downloads & Guidebook/DVD order form
www.wittmanconsulting.com

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