Successor Development and Management Transition on Family Farms and Ranches
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“Successful management transitions don’t just happen...they are planned.” (Dr. David Kohl)

This publication assumes that several other key parts of the management transition puzzle have been or are being addressed. Successor development and management transition are parts of a larger whole. Neglecting any one of them can undermine everything you are trying to accomplish. These assumptions are listed below:

• The successor has been selected.
• They want the job and their family supports the decision.
• The successor is capable of growing into the position.
• The business can afford them.
• The current management/ownership (Hereafter referred to as the current CEO), has their estate and retirement plans in place, they have been communicated to the family, and are in the process of being funded.

There are a multitude of potential economic and relationship issues that can derail the best laid transition plans; but, having a well thought out plan, with action steps and a timeline significantly improves the odds of success.

The most successful cases I have observed and worked with over the past 30 years have started early and deliberately. The less they have left to chance, the better it has worked.

A timetable is a key component of a successful management transition. It not only helps keep the successor from becoming frustrated, it also helps prevent the current CEO from procrastinating. In addition to the successor’s development plan, the timetable needs to address the delegation of responsibility and transfer of authority. The process isn’t just one of transitioning in the successor, but also one of transitioning out the current CEO.

The management transition process isn’t just about the successor assuming the duties of the current CEO, but also the process of other family members and key employees adjusting to a new leader. It has to be a major part of the role of the current CEO to support that transition. It also provides
support for the successor making changes without them being perceived as an indictment of the past or criticism of the predecessor.

Mark Voeller, a nationally recognized family business consultant and author of the book *Exit Right*, says that sixty percent of failed management transitions are due to unresolved family conflicts and communication issues, and twenty-five percent are due to poorly prepared successors. The focus of this article will be on those two aspects of the transition process.

Successful management transition involves three critical and at times simultaneous processes: successor development, the transfer of management responsibility and authority, and the exit of the current CEO.

Ten lessons I have learned from the businesses that have been successful in completing these processes are that they have done the following:

- An assessment of the needs of the business, not just for now but for the future. This includes a determination of the management skills and attributes that will be needed.
- An objective assessment of the strengths and weaknesses of the current CEO. This includes an assessment of the CEOs ability to teach and mentor the successor in the areas of need identified in the business assessment.
- An objective assessment of the strengths and weaknesses of the successor.
- Open, honest and mature two-way communication.
- The creation of a management development plan that addresses the successors strengths and weaknesses, experience, responsibility, training, and honest/objective evaluation and feedback.
- Planned experience, exposure and networking opportunities for the successor, not just outside the business, but also outside the industry.
- Developed a common vision for the business.
- An ongoing delegation of responsibility and authority, with a specific timeline.
- Involved the successor in the development of the business plan and in the strategic decision making process.
- Implemented a plan for what the current CEO is going to do next.
Communication and Working Together

Based on Voeller’s work as well as my own observations, I want to begin with a discussion about successors and current CEOs working together.

Good communication and interpersonal relationships are imperative to overall business performance and sustainability. Most managers understand the need to improve various facets of their business management practices. However, these two areas tend to be neglected or minimized in terms of their importance. Peter Drucker, often called the father of modern management, also said that 60 percent of all management problems are the result of poor communication. While poor business decisions can cause the ultimate failure of a business, I have witnessed too many farm and ranch businesses torn apart and ultimately fail because of communication and relationship problems. Unless there is a major blow up, most outside observers never realize the underlying cause of the problems that manifest themselves in poor business performance. This section discusses what I see as the five most common communication and relationship problems.

The first problem is the dictatorship or as Don Jonovic, president of Family Business Management Services, describes it, the “der Fuehrer or el Jefe” management model. Everyone knows the management style I’m describing, “This is mine and if you want to work here or inherit your share when I’m gone, just do what I tell you. If I want your opinion, I’ll ask for it.” If someone does own it all, that’s obviously their prerogative; but, it is a management style that is best suited to a business in its last generation, because it is an extremely dysfunctional system for developing a capable successor.

Unfortunately, a more open participatory management style goes against the basic nature of those who like the idea of being “boss” and being able to tell other people what to do. Being in charge and having the final say is one thing; but, some people seem to have a need to force their will on others just to prove they can and to make sure that no one forgets it. You don’t lead by hitting people over the head - that’s assault, not leadership.

On a personal note, when I was growing up, our dad used to kid my brothers and me anytime we would say “I think”. His response would be, “How do you know what you think, I haven’t told you yet.” Fortunately for us, he didn’t mean it. While we all knew the final decision was his, he was always encouraging us to “use our heads” and to come up with new ideas. When we did, he would talk them over with us to get us to explain our reasoning, to
think about what the consequences might be, and to see if we had considered any alternatives. Unfortunately, I see situations all the time where the sentiment originally expressed is intended.

The second problem is of the biggest roadblocks to progress in any organization and that is secrecy. Don Jonovic says that most family businesses are not just closely held, they are hermetically sealed. He talks about making a presentation in which he discussed how information is passed from one generation to the next. After the presentation, a woman came up to him and said that he had missed the method that her husband used with their son. When he inquired what it was, she said “read my mind.” Since then he has included it in every management succession seminar he has given.

Far too many CEOs share information only on a need to know basis. Successors need to be able to share in the accumulated wisdom and experience of their elders. They shouldn’t have to learn by osmosis or only through their own experience. Key employees and family members also want and need to know the answers to the following questions:

- What are they expected to do?
- Why are they doing it?
- How are they doing?
- How can they improve?
- Where is the business headed?
- How does it plan to get there?
- What is my role?
- What’s in it for me?

The third behavior I see all too often is people who cannot admit they are wrong. It is just as often true of the successor as it is of the CEO. These individuals frequently resort to turning a difference of opinion into an argument. The result is that this tends to escalate the disagreement to the point where it becomes an emotional exchange rather than pursuing a rational discussion. This behavior generally produces one of three outcomes: 1) if the person being challenged has position power, they crush the challenge to their authority, 2) both parties revert to childish behavior which accomplishes nothing but embarrassment and/or resentment, or 3) knowing the behavior that differences of opinion create, others simply give up challenging the person’s ideas or assertions and much needed constructive discussion of issues, logic and decisions never occurs.

The fourth problem is unresolved conflict. This may be between people working in the business or between family members in the business and those
who have an ownership interest but don’t work in the business. These problems are like an insidious cancer that eats away from inside the business. If they are not addressed and resolved, they not only have an adverse affect on business performance, they can also be the landmine that prevents the successful transition of the business to the next generation.

It is important to recognize that disagreement is normal and inevitable. In fact, if the business is going to change and grow, it is essential. Henry Ford was once quoted as saying, “If two people in a business agree on everything, then one of them is unnecessary.” The corollary to that statement is that if they disagree all the time, then both of them are useless. The problem occurs when a disagreement grows into conflict. All other issues may become secondary and the conflict could become the business’s Achilles’ Heel. Unfortunately, conflicts are often never properly addressed. Under a strong authoritarian leader, problems often don’t fully manifest themselves until the current CEO dies or turns over the reins.

The fifth problem relates to learning how to fight fair. In order to learn how to do this, people need to focus on developing both emotional maturity and interpersonal skills. At a minimum, there are five basic ground rules: avoid personal attacks, don’t drag others into taking sides in the argument, don’t use subversion, focus on the issue at hand (i.e., don’t dredge up old issues), and keep heated discussions in private. Bullying or childish behavior may win battles, but the result may be that family relationships and/or businesses end up losing the war.

When it comes to working together, those who do it best tend to follow two basic rules: the Golden Rule, “treat others as you would like to be treated,” and the Platinum Rule, “treat others as they would like to be treated.” The Platinum Rule basically recognizes that everyone is different and reflects two of the habits Stephen Covey describes in his book *7 Habits of Highly Effective People*, “Seek first to understand, then to be understood” and “Think win-win.”

I think the first is self-explanatory. It can help though if the parties involved have some understanding of personality style and generational differences. Many state extension programs offer workshops on these topics. The win-win idea, however, is often misunderstood. It isn’t based on compromise, but on fostering an attitude that is committed to finding solutions that will truly benefit both sides of a dispute. Solutions do not of course exist in themselves; they must be created.
Developing Strategic Management Skills

In addition to learning how to manage the day to day operations of the business, successful transitions require passing on the “strategic smarts” and “strategic thinking skills” to the successor.

To be successful as a CEO the successor also has to learn to become a leader, not just a manager. Leadership revolves around vision, ideas and direction, and has more to do with inspiring people than with day-to-day implementation. Top managers recognize that their ability to attract and motivate people will in large measure determine how successful they are. A leader is great, not because of his power, but because of his ability to empower others. When it comes to managing people, the top managers see themselves more as the head coach than the boss. J. Paul Getty once said “It doesn’t make much difference how smart, how much knowledge or how much experience an executive possesses; if he is unable to achieve results through people, he is worthless as an executive.”

Leaders must be able to judge the strengths and weaknesses of the business, to assess the opportunities and threats in their environments, and most importantly, to identify which issues are most important and deserve their closest attention.

It’s important to recognize that in order to stay ahead, the internal rate of change in the business needs to exceed the rate of change in the business’s external environment. It doesn’t, the business will be falling behind even though it may be moving forward.

Two comments I frequently hear are that most farmers and ranchers run their businesses more as producers than as business managers, and they are resistant to change. From my experience, most of the producers I work with don’t see either statement being directly applicable to them. Most believe they are managing their farm or ranch as a business. The question should really be: Are they using the best business management practices and do they possess the necessary management skills and attributes to compete with the best in the business? Almost every commercial producer also believes he has made significant changes in his business. The real issue is: Are they moving forward as fast as their leading edge competitors - the top 10%?

As an analogy, consider two people driving in the same direction on an interstate highway. Both are clearly changing, i.e., moving forward. However, one is traveling 55 mph and the other 70 mph. If they both drive 8 hours a day,
5 days a week, at the end of one year the one going 70 mph will be 31,200 miles ahead of the other. But what if the 70 mph driver decided to ramp things up to do business 24/7/365? If the 55 mph driver stayed on his current pace he would now be falling behind by 498,800 miles per year. Assuming the highway circumnavigated the earth, the slower driver would be getting lapped about 20 times a year.

Is this example extreme? Yes. Is it unrealistic? No. Large commercial dairies typically milk around the clock, 365 days a year. In another instance, one row crop operator I know now farms in 12 states so he can diversify production and market risks in addition to utilizing his labor, management and equipment nine-ten months a year rather than the normal single-site planting and harvesting periods.

Strategic management is largely a matter of anticipating the future, recognizing emerging problems before they occur, and taking corrective action while the window of opportunity for effective response is still open. In fact, the definition of strategic management is the ability to anticipate, adapt to, drive and capitalize on change.

Top managers are opportunistic, because they recognize that timing is everything. Timing doesn’t relate just to knowing when to get in, it also deals with knowing when to pull back, when to expand and when to get out. One of the key points in the book Good to Great is that the best companies spend as much time analyzing what to stop doing as they do analyzing new opportunities. Unfortunately, the average manager tends to jump on the bandwagon after the early adopter profits have already been made and then frequently doesn’t get out until he’s forced to. As the old saying goes, most people change when they feel the heat, rather than because they see the light.

The top managers also spend more time thinking about “what if” scenarios and developing contingency plans. They don’t dwell on the negative, but they consider what could go wrong and what they’ll do if it does. It is no different than what successful coaches and generals do when they develop game or battle plans. The average manager may plan, but they tend to limit themselves to most likely outcomes and don’t spend enough time on contingency planning. Typical producers also tend to treat planning and analysis as a beginning and end of the year exercise. Even then most of them see this as more of a chore than an opportunity.

John Baker, Director of the Beginning Farmer Center and the Iowa Crisis Hotline, offers the following piece of very sage advice, “Don’t be afraid to ask
dumb questions, they’re more easily handled than dumb mistakes.”

The most successful managers spend a great deal of time on monitoring and analyzing performance. By doing so, they are much more likely to spot problems and opportunities before it’s too late. They are also more likely to be treating the cause and not just the symptom of a problem. They also always use two analytical skills in solving problems. The first perspective - they look at multiple frames of reference. And second, they always look for the heart of the issue. The reason they don’t jump to conclusions is they have learned that every complex problem has at least one solution which is simple, obvious and wrong.

Successors need both experience and training to develop the visioning and evaluative skills to strategically redirect the businesses. They also need to develop the ability to conceive alternative ways of doing business and to choose those which make the business more effective.

Unfortunately, only one-third of family businesses have a strategic plan for their business. There are three reasons why most do not have one. These are that the strategic planning process a) requires sharing information, b) requires the CEO to respond to the ideas of others and to defend their own ideas, and c) requires a commitment to the plan versus the typical entrepreneurial manager’s style of keeping his or her option open and to themselves.

In contrast, many successful family businesses actually have three plans, not just one. These include a long term strategic plan for the business, a detailed business plan, and short term contingency plans for dealing with the unexpected. While most farmers and ranchers are good at tactics and operations, the top farm and ranch executives recognize that to be successful, they first have to determine what they want to accomplish and then let that determine how they get there. It boils down to recognizing the difference between doing things right and doing the right things. A lot of failures have been businesses who were doing something very well, but that were no longer relevant or what the market wanted.

We need to recognize that 80 percent of our results are produced by 20 percent of what we do. The management philosophy of doing first things first is based on the Pareto Principle, more commonly known as the 80:20 rule. One of the things that sets top managers apart is that they set priorities and follow through on them. The most successful are the ones who have figured out which the 20 percent are and then put most of their time and resources into
accomplishing them. The other 80 percent get eliminated or turned over to someone else. The major reason most major goals are not achieved is because people spend most of their time doing second things first.

Success emanates from first doing the right things and then doing them well. Hockey great Wayne Gretsky was quoted as saying, “What separates me from the average player isn’t that I’m stronger or faster, but that they go where the puck is while I try to go where it’s going to be.”

It is important to recognize that it is the planning process, not the plan document that matters most. The strategic planning process involves both internal and external environmental scanning. This is often described as a S.W.O.T. analysis, i.e., identifying Strengths, Weaknesses, Opportunities, and Threats. The process can be both threatening and frustrating to action oriented managers who often view the necessary brainstorming as mostly a waste of time. However, it is only through this process that a clear vision of where the business needs to go, what it will take to get there, what could go wrong, and both implementation and exit strategies can be fully fleshed out. Dwight Eisenhower once said, “In times of crisis I have found that plans are often useless, but that planning is absolutely essential.”

It is equally important to recognize that two-thirds of the businesses that do engage in formal strategic planning never implement the plans that are developed. The problem lies in the fact that the management system (or lack thereof) and management’s operating style often do not support implementation, and the planning process serves mainly as a thought provoking exercise.

The development of short term contingency plans involves analyzing different scenarios and developing specific plans for dealing with critical issues before they become problems. Addressing issues such as a death, divorce, disability, or a decision by one of the owners to sell his or her interest, and doing it at a time when things are going well also helps make the discussions less threatening and emotional. In addition to these areas, crisis plans can be developed to address such issues as:

- What if we sold the farm/ranch?
- What if we had a major disease outbeak?
- What if a key non-family manager suddenly quit?
- What if output prices suddenly fell by 50 percent or input prices doubled (sound familiar?)
- What if we lost a major contract or our biggest land lease?
- What if our lender discontinued financing us?
In each case, the objective is to discuss the issues and develop action or contingency plans. The major issues also need to be readdressed on a regular basis.

Over the long term, the success of a family business requires not only a shared vision but also a strong set of common values. As families expand and grow older, goals and values inevitably become more diverse. This is particularly true when the family members involved in the business include cousins or in-laws who grew up under different family influences and not just siblings who grew up in the same family.

Remember that the CEO is the business’s key to link to its external environment. Successful businesses actively promote mentoring and networking opportunities for the successor as a way to prepare them for leadership. In order for a business to continue to be successful, each generation needs to bring in new strategic ideas that build on the business’s core competencies.

The Educational Process

One of the key components of educating the successor and increasing their understanding of the business and how it works is the development of a business plan. It’s not just a tool for guiding the business; but the process, discussions and information involved in preparing the plan are a critical element in the development of the successor. The reason is every facet of the business has to be explored. A well prepared business plan serves several purposes and accomplishes several things:

- It improves internal and external communication.
- It evaluates the feasibility of plans and their sensitivity to different assumptions.
- It can help to discover and anticipate problems and limitations, as well as helping to discover and evaluate opportunities.
- It can help in acquiring funding.
- It forces management to take an integrated approach to addressing production, operational, financial, marketing and human resource issues.
- It requires an assessment of capabilities and a clarification of vision, goals and direction.
- It makes projections more realistic.
- It increases the involvement of and interaction between the current CEO and the successor, as well as the rest of the management team.
• It builds the commitment to something specific.

The most successful businesses also recognize that the business plan isn't a once and done document. It has to be continuously monitored against actual results and regularly updated to reflect changing conditions and circumstances.

If successors are going to develop and improve their decision making skills, then they need to learn from their mistakes. An important part of that process involves performing autopsies on the results of key decisions, whether things went well or poorly. This requires digging deep enough to determine why things turned out as they did. What was overlooked, what assumptions were wrong, what should have been done differently, were there mid-course adjustments that could and should have been made, and if external factors or conditions were the cause, are there any leading indicators or more detailed information that needs to be considered in making future decisions? Most important, what did they learn?

Another increasingly critical part of a successor's education is the development of negotiation skills. The ability to negotiate touches almost every facet of a business, from dealing with input suppliers, lenders, landlords, customers, labor and even family members. The success of negotiations affects prices paid and received, the acquisition of resources, relationships, and terms of arrangements. More now than ever and likely even more so in the future, top managers have to be skillful negotiators. It is critical to a successor's development that they be included in these negotiations even if at first it is only as an observer.

Those who are most successful recognize the importance of understanding different negotiating styles and strategies, doing their homework, maintaining self-control, and having a walk away point. One approach won't work in all negotiations. They also recognize that strategies need to be situational and dependant upon circumstances, timing, personalities, relative bargaining power and whether its intended to be a one-time deal or long-term relationship.

Seminars, symposiums and other formal continuing education programs are another component in successor development. This includes both skills training and increased knowledge in areas identified in the transition plan and the performance appraisal process; but, it also needs to includes exposure to different perspectives, new ideas and alternative approaches. While it is important to participate in educational programs specifically targeted to farm/ranch operations, the most successful operations I know also make it a
One of the things I tell everyone that asks me about The Executive Program for Agricultural Producers is that as much of what they learn will come from the other participants as it does from the faculty. In part this occurs because the participants are very business oriented commercial producers and agribusiness executives who represent the spectrum of agricultural enterprises and geographic regions throughout North America, in addition to a few international participants every year.

One of my biggest frustrations in teaching business concepts are people who have to have things put in terms of their enterprise, geographic area or industry before they can see how it applies to their situation. Someday they will either be out of business or working for someone else, because they are always going to be two steps behind the leaders.

Providing An Outside Perspective

CEOs and successors in commercial farms and ranches are facing an increasing need for specialized knowledge to address internal management issues. At the same time, pressure is mounting to stay in touch with the business’s external environment.

Successors also need to see how the rest of the world operates. Many of the most successful management transitions I have seen were those where the successor had worked elsewhere before coming into the business. Some family businesses actually require the successor to have from 3-5 experience elsewhere and to have earned at least one real promotion before they come back to the business. This experience lets them gain a broader perspective and allows them to see different management styles. It also gives them an opportunity to prove themselves in an environment where they aren’t the “crown prince,” “hired hand” or “the kid.”

Another option that I have seen work is an internship, where the successor works for another successful operation for a period of time. These businesses may even not be in the same commodity or state. Internships allow the successor to build self-confidence and to be held accountable to someone other than a family member. It also allows the successor the opportunity to compare the internship operation with the home operation in terms of how people are managed and decisions are made.
If the business is large enough or includes more than one enterprise or lines of business, allowing the successor to assume responsibility for one part or location has also been an excellent training ground. Likewise, responsibility for or experience in the different management functions can help deepen the understanding and broaden the perspective of the successor. Obviously, in smaller operations one person may wear all the management hats and the opportunity may not exist. But even then, it is critical for the successor to gain actual experience working with finance, marketing, operations, production and personnel management. It is more difficult to manage things you have never gotten dirty doing or had the responsibility for.

The best managers I know recognize the importance of networking and the need for continual exposure to different perspectives and new ideas. They realize that however well their business is doing, there will always be a better idea or way of doing things. One of my favorite quotes is by Jack Welch, the former chairman and CEO of General Electric, who said “The only truly sustainable competitive advantage is the ability to learn and adapt faster than your competition.” It is important to recognize that what he is referring to is continuous learning and improvement. Most sustained success comes from doing 20 things 5 percent better than from doing 1 thing 100 percent better. Remember, the future hall of fame baseball player with a .300 lifetime batting average only gets 1 more hit every 20 times at bat than the player who hits .250 and just manages to hang on.

I believe peer advisory groups can be a cost effective way to help both current farm CEOs and management successors address this issue, as well as providing a way to continue the never ending process of finding ways to become better managers. Even though the concept makes sense, groups are successful only if they are made up of the right people. The chemistry and trust between the members is critical. However, bringing together experienced people who have or are facing similar challenges can be extremely helpful. Peer groups are typically made up of 5-10 producers. Members are usually not neighbors or direct competitors. It also helps to bring together people with different strengths. Openness and candor are critical to getting the most benefit. Members of groups I work with often tell me they hear things they don’t like to hear, but need to hear. That is where much of the value occurs. If everyone is to get maximum benefit, they need to be honest, even what may seem brutal at times. Some groups use a professional facilitator, others rotate the discussion leadership among the members. Meeting are usually monthly or quarterly. These groups essentially allow their members to have a true outside board of directors or advisors made up of people who have skin in the game.
It is not a comment that is very politically correct, but flying with the eagles and not scratching with the turkeys is a very real issue in any business. CEOs and successors need to make sure they are seeking out and interacting with the successful people in their industry and not hanging out with the losers. This is essential for stimulation, motivation, and personal growth. Successful people challenge you and force you to think, they cause you to consider alternatives and they inspire you. Losers tend to be victims. Everything that goes wrong is someone else’s fault. They jealous of success, they are tradition bound, they can’t see alternatives, and they drag you down to their level.

The following are just some of the advantages a peer group can offer:

- In closely-held businesses, the CEO and other members of the management team also frequently view issues from the same vantage point. This tends to create blind spots and limit objectivity. Peer groups provide a way to overcome that problem.

- CEOs and successors need a “sounding board” for their ideas. Have they missed anything, are there alternatives they haven’t considered and what are some of the implementation issues that may not have occurred to them? Peer group discussions can provide feedback on plans and ideas, explore what if questions, allow members to draw on the experience of others, and help provide greater insight and objectivity.

- A peer advisory group acts as an informal board of directors and provides members an opportunity for bouncing ideas off of their peers. Each group member brings their wealth of personal and business experiences to the table and provides an atmosphere of synergistic creativity.

- The ability to draw on different individual’s strengths can benefit everyone involved. Within a group some people will have greater skills and interest in market analysis, some in personnel management, some in management information systems, others will be computer/technology buffs, and some will be strong in particular operational/production areas. Peer groups can offset weaknesses, complement strengths, and reduce the need to try to be good at all things as a manager.
• Business success takes vision and insight. Peer groups can help turn the focus away from the day to day issues and look at the bigger picture that can improve your odds of success.

• The psychological support can often be as valuable as the ideas gained. This may involve the encouragement needed to try a new idea or see something through to completion. It can also help in breaking out of an old mindset or offering the support needed during periods of stress or financial hardship.

• It can be very lonely being the manager of a small, growing business. Friends and family may not understand the issues that are being faced. However, every CEO or successor in a peer group has the same sense of isolation and can offer support and understanding in a way that no one else can.

• Peer groups can also provide access to the collective membership’s sources of information, resources, and expertise related to specific problems or opportunities. This same expanded circle of contacts can also helping identifying new markets, supply sources, potential employees, and business opportunities.

• Coordination of field trials and the development of databases and benchmarks on marketing, production and comparative financial information can multiply the availability and usefulness of information, while reducing acquisition time and costs.

• Peer groups also provide an opportunity for needs-based training. Assume that several producers decide they need training in some area of personnel management, succession planning, process improvement techniques, financial analysis, options strategies, etc. The type of program and level of expertise they need might involve anywhere from 1-3 days, and the quality of the presenter might require charges of $3000 - $5,000 a day, plus expenses. Assuming that this type of program isn’t available through their state’s extension service, the cost for one producer could be prohibitive; but, shared by 5 - 10 producers, it could be very reasonable. In addition, the questions and perspectives of multiple participants will likely open up some possibilities and issues that wouldn’t otherwise be discussed.

• A peer group offers a safe confidential environment where business
owners can tell the truth about what is going on in their personal and business lives and get real answers to the challenges they face on an ongoing and daily basis.

• Frequently, successors in closely-held businesses either won’t or can’t always effectively challenge the ideas of the CEO because doing so can lead to conflicts which have spillover effects on business and/or personal relationships. In these instances, they need somewhere to get feedback on their point of view and to get help with ideas on how they might better approach the issue.

• One of the biggest challenge many business owners face is that there is no one to answer to. There is no boss or supervisor looking over their shoulder making sure that they have completed all of their tasks. There is also no one pushing them to set higher goals and take action to attain those goals. A peer advisory group can provide the accountability needed to assure follow through on commitments.

• It is incredibly easy for a business owner to stay within their comfort zone. There are two situations where peer groups can make a critical difference. The first is good times, when it is too easy to become complacent. The second is bad times, when the margin for error and window of opportunity are very small. A peer group allows the emerging and seasoned business owner to stretch beyond their current situation and set higher goals and reach them faster than they would on their own.

These groups need ground rules, and they need to have planned agendas to keep discussions on target and for everyone’s benefit. Like partnerships or marriages, the members need to be able to give and take. People who can’t accept concept constructive criticism or who can’t admit they are wrong are not good candidates. Neither are those who are just there to take away and not give back, or those who try to dominate the discussion.

Because membership is by invitation, groups need to start out with a basis for removing members when there isn’t the right fit or chemistry. Getting everyone’s agreement up front is critical for amicable separations. There also needs to be a confidentiality agreement, so that all members, even those who leave the group are professional enough to respect the rights of the other members.
Developing a Common Vision

The development of a common vision for the business includes addressing and working through the personal and family issues that are and will be involved. In part, this is because people, even from the same family, often have different goals, priorities and vested interests. We can talk about and strive for separating business and family issues and decisions; but, the reality is they are intimately connected. This is even more true when some of the owners are actively working in the business and some are essentially outside investors. Everyone may agree on the costs and benefits of a decision, but still disagree on what to do because of the sharing of risks and rewards. Those working in the business tend to be more focused on reinvesting in the business and future growth, while those outside the business see it more as an asset on their balance sheet which isn’t generating much of a return. Even within the business, the current CEO and the successor may also differ because of the stage in their life cycle. The current CEO often has more equity at risk and is concerned about long term security, particularly if his retirement is going to be funded out of the business.

One exercise that I encourage both the CEO and the successor to do is for each to independently write out their thoughts in response to the questions in the following seven areas, and then share and discuss their ideas:

Core Values
- What is important to me?
- What is acceptable?
- What is not acceptable?

Vision
- What does my future for the business look like?
- What do I want from the business?
- What do I hope will happen?
- What am I afraid might happen?

Mission
- What is the purpose of the business?
- Why am I here?

Goals
- What do I want the business to accomplish?
- What do I want to do or achieve personally?
- What sacrifices am I willing to make in order to make it happen?
Objectives
- How will I measure both the business’s and my own performance and progress?

Strategies
- What is my plan or approach for accomplishing the goals I have set out?

Tactics
- How do I propose to implement these strategies?

Some of those reading this will see it as too academic or touchy-feely. I can only tell you that the leaders of some of the most successful family businesses in the country have gone through the exercise and learned a great deal from it.

Performance Evaluation

Constructive performance evaluations are essential for successor development. Unfortunately, traditional performance appraisals tend to be just the CEO telling the successor what he thinks the successor did well or needs to improve on. This approach is often ineffective if the CEO avoids issues that may be taken as criticism, if it results in a confrontation or the successor becoming defensive, or if it leaves the successor feeling they have no input. Stated another way, performance appraisals can take on a parent:child tenor rather than being a business opportunity the helps the successor grow.

An alternative approach is known as the negotiated performance appraisal. This approach is not about pay, it is a coaching tool, it is about performance improvement, promotes two-way communication, provides feedback to both the CEO and the successor, puts on burden of analysis on both parties, and clarifies what needs to be done.

Feedback is a critical and necessary part of successor development. The successor, as do all employees, needs to know how well they are performing, needs positive feedback and validation on a regular basis, and needs input on how to improve.

The negotiated performance appraisal approach begins with both the CEO and the successor preparing separate lists prior to the actual performance review. The CEO’s list addresses where the successor is performing well, where they have shown improvement and areas where the CEO would like to see improvement. The successor’s list addresses areas where they believe they
have performed well, areas where they think they have improved, areas where they think the CEO would like to see improvement, and what they would like to see the CEO do to help them be more effective. These lists are then exchanged prior to the review discussion.

The focus of the review session is then on recognizing the successor’s strong points, reaching agreement on areas where improvement is needed, laying out the specific steps that are needed for improvement to occur, setting realistic goals, and solving the problems that are identified.

This approach addresses two basic problems that are often stumbling blocks to effective appraisals. The first is that if the person being reviewed knows of their weaknesses, they prefer to point it out themselves. The second is that it helps the CEO identify ways they can be more effective in helping the successor develop their fullest potential.

**Concluding Comments**

It does happen that the successor: 1) isn’t capable of handling the position - they either don’t have the ability or the right talent set, 2) the CEO position just isn’t a good fit - they may be very talented in and passionate about production, marketing, finance, etc., but not be a good CEO, and 3) some very capable successors actually don’t want to be there or don’t want the responsibilities that go with the CEO position. The reality is that some successors come back to the business out of a sense of guilt or loyalty or to avoid being disinherited. Others come back because it was the path of least resistance or they couldn’t get another job that offered the same opportunity or lifestyle somewhere else.

Ultimately, it is people rather than things that take a business from good to great. Two pioneering management studies, both published as best selling books, *Good to Great* and *First Break All the Rules: What the World’ Greatest Managers Do Differently*, reached the same conclusion. Businesses became great by getting the right people, in the right jobs, doing the right things and getting the wrong people out of the business.

In some cases the problem of choosing the right successor occurs because it is impossible for some parents to be objective when assessing the skills, abilities and competencies of a child. Although less frequently than in the past, primagenture may have been the problem. That occurs when the eldest son automatically becomes the chosen one, when a daughter, a younger son or an in-law might be more capable.
Relationship and communication issues aren’t limited to those between the current CEO and the successor. Spouses, other children in the business, key employees, children not working in the business but with an ownership interest, grandparents, and in-laws can all represent relationship landmines that can unravel the best of plans.

It also is not always possible to follow the transition timeline, i.e., the successor assuming full control when the current CEO retires. Everyone and everything may be on the right path, they just may not be there yet. The death or disability of the current CEO can and often does happen too soon. Even then, the more forethought, contingency planning and successor development that have occurred can reduce the adverse affects on the business.

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**References**


