



[ASK] - Always Seeking Knowledge Selected Back Issues – May 2010, No 6

Succession planning

The Trinity of Management

This article goes back to December 2001.

Last week we had the great pleasure of again spending time with Ernesto Sirolli. Those who were at Christchurch will remember the outstanding video presentation he made there.

Ernesto champions 'passion'. He says that when you are absolutely passionate about what you do, nothing will stop you. If you have anything less than deep passion about what you do, you may well need to make more decisions, sooner rather than later, he feels. He translates this passion into a very interesting and practical concept, which he calls the 'Trinity of Management'.

Much like the Weak Link concept when managing holistically, he says there are three places where there must be absolute passion within a business. There must be someone in the business who is passionate about production, there must be someone passionate about marketing, and there must be someone passionate about financial management. The trick and the challenge is this: you will never find one single person who is passionate about all three!!

It is possible, Ernesto says, to find many people who are passionate about production. Ask the right question of any farmer, and you will probably find this is their passion. It is also possible to find many people who are passionate about marketing. Some farmers are in that category, although I have observed fewer are passionate about this than about production. Some people are passionate about both production AND marketing.

Some people are passionate about financial

management, and it is quite possible to also find people who are passionate about both production AND financial management. But, says Ernesto, if we should ever find someone who is equally passionate about both marketing and financial management, we should put him/her in a sealed container, because so far we have never found such a person!!

Simply, what he is saying is that you cannot ever properly run a one-person business on your own. By definition you must absolutely lack the passion in at least one, if not two parts of your business. This is a human thing and not a failure within your self. In fact, it offers you perhaps the greatest opportunity ever presented to you. All you have to do is accept the genetic material you are made of, and go find someone with a different makeup! You do not necessarily even have to pay the missing person money first up. If your problem is in financial management, could I suggest you find a retired bank manager or accountant. Perhaps he or she likes lamb or beef, or milk, if that is what you produce (yes, I know the milk is illegal. I am using the principle to make the point!).

If your Weak Link at the moment is marketing, and it is not the area of your passion, then don't try and do it yourself! Marketers eat meat, too! They probably drink milk on rare occasions, but I have noticed they seem to prefer whiskey. When you and your new co-director(s) have fixed up your areas of weak-passion, expect that there will be plenty of dollars to pay them their true worth. Imagine the excitement of seeing your business growing, and imagine sharing that excitement with other equally excited and passionate people. Vote for growth in your business, and share the passion.



Succession planning

This article was first published in January 2005.

The big issue farm communities always face, apart from grappling with the problems of industrial agriculture, is business 'succession'. Allan Nation, the highly respected editor of the 'Stockman Grass Farmer' newspaper which is published in Missouri, and widely read elsewhere around the world, has an interesting viewpoint. He writes: "The primary goal of succession planning should not be to transfer your farm or ranch to your heirs after your death, but to provide for a comfortable living for you after you give up day-to-day management. Whenever any industry starts to survive in the short term by consuming its young, as American agriculture has done, it ensures its death in the longer term. When the young can no longer find an easy way in, the old can find no comfortable way out."

Our analysis suggests that by and large, it is the same situation in Australia and New Zealand. We have to move beyond the next generation either being told by their parents that it is all too hard, or having the negative experiences that lack of early planning so often creates.

Succession is a big subject. It is charged with so many emotions: people have to actually consider not only their mortality, but in some cases, years of activity very different to those they are now engaged in. They have to make choices about who does what and who gets what. They have to consider what is 'fair' v's what is 'equal'. More importantly, the older generation has to be ready and prepared to move on. It is not enough that the younger ones are ready to step up to the plate.

There are complex legal and tax issues that surround the entire process, and that is apart from practical timing considerations. Paradoxically, the timing of action seems to determine people's attitude to taking action, and yet it is their attitude to action that determines their timing. It is a closed loop, unless people are prepared to break the circle,

and breaking the circle seems to occur in one of three broad ways.

There is a small group of people who recognise the need for active planning, and usually begin this somewhere between 5 and 10 years before the change might need to occur. These people enthusiastically prepare for the next generation to choose whether they will – or will not – be involved. They don't wait for the next generation to make the decision to come home, and then start the planning work. Because the planning period is long, there is considerable opportunity to develop strategies and enterprise mixes that lead to the desired outcomes. And there is always an exit strategy if there is a change of mind by prospective incoming family members.

The far more common practice in succession planning is to wait until 'something happens', usually some time after the return of one or more of the next generation. This is by far the largest group of people who become involved in succession planning. The 'something happening' is usually son(s) or daughter(s) who have been home for 3 to 7 years, often married and starting a family, who are beginning to query their security in the business. Sometimes they have developed some equity in the business, often with livestock and sometimes with machinery, but usually there is no clarity as to how that equity can be redeemed without damaging the overall business.

This group tends to face more difficult questions about management roles and responsibilities; about authority (who actually has the cheque book); about remuneration – very often the younger person has worked for those years at a low wage, expecting a benefit in the end. Sadly, because of the overall lack of early planning, the expectations of what 'in the end' will deliver are often based on unrealistic assumptions. Overall, the older the next generation is before the planning begins, the less likely the transition is to succeed. If the next generation are in their early 40's, it is quite often too difficult, and the entire process often moves into confrontation. Occasionally

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the younger generation just give up, and I have worked with several instances where fathers in their 70's and 80's still had sole control of the cheque book. In one case father was closer to 90!

Confrontation is the most disappointing outcome, yet it is far more common than one cares to admit. Very often confrontation is initiated by the next generation reaching the point where a higher degree of certainty is required in their life. They are often demanding either some money or a share of the assets. Sometimes communication has effectively broken down. On occasions it is only conducted through a third party. There is often a reluctance by the older generation to hand over the reins, most often based on fear that the following generation will lose what has been put together by them or a previous generation, or that 'the young wife will take the lot'!

All too often the outcome of confrontation is the sale of the business and its assets, and too frequently divorce in the next generation, fulfilling and reinforcing father's dire prediction.

So what are the factors that should be considered when setting about succession planning? They will be different for every whole, but are likely to include:

- A time frame for the transition to be completed - and that may well be 5 or more years; *
- Development of strategies addressing: the direction of the business during the transition; fairness and equity

considerations for other siblings; location of residence of both the older and younger generations; remuneration of each generation;

- A sensible financial plan that shows whether the strategies are likely to be achieved
- Risk management strategies - such as insurance, if required

Finally, there should be an exit strategy in case things don't work as expected. These are some of the things to look out for:

- Make sure that any plan you develop is clear and simple - and properly understood by all parties
- Make sure that all parties actually want to be a party. Beware the returning son who feels obligated to keep farming, or the parents who feel obligated to leave.
- Ensure that people end up with economic business units. Beware of the 'great gift': ie children gaining both the property and a mountain of debt that will either sink the business in the long run, or ensure a life-time of miserable quality of life for them
- That there are no strings attached. Don't rule from the grave!!

Finally, I remind myself often of a comment made by my friend Will Leatherman. Will grew up in Mississippi, where his family are still growing cotton. Laconic is the word that best describes Will. One day as we were driving past the cemetery in Bourke, NSW, Will motioned to me. "See that place over there", he said, "it's full of indispensable people!!" He was right, you know. It still is, and it's a pretty humbling thought, at that.