Transferring Management: The Overlooked Challenge

or

“Who’s In Charge?”

John Baker, Iowa State University
and Rodney Jones
Oklahoma State University
“Entry into farming is a process, not an event.”

Dr. Paul Lasley
Don't be afraid to ask dumb questions.

They're more easily handled than dumb mistakes.

William Wister Haines
Small problems are hard to diagnose and easy to solve.

Big problems are easy to diagnose and hard to solve.

Nicolo Machiavelli
The Prince, Book IV
THE FARM

Owner’s priority
Continuation of family ownership of farmland

SUCCESSION PLAN

Owner’s priority
Continuation of farm family business

ESTATE PLAN

Assets | Money | Management

BUSINESS SUCCESSOR

HEIRS
Transferring property

Sale
  Installment sale
  Contract for deed
  Note and mortgage
  Sale of ownership interest
    (Stock, Partnership, LLC, etc.)

Gift
  Inter Vivos gift
  Testamentary Gift

Trust
  Beneficiary
Transfer of money

- Hourly wage
- Gift of money
- Salary
- Incentive plan
- Profit sharing
- Share lease
Organizational Structure

- Framework for stakeholder interaction
- Assures that everyone understands what is expected, and how decisions are made
- Each stakeholder must be aware of the vision, mission, objectives and goals
- Each stakeholder must understand the roles of other stakeholders
- Lines of authority, and responsibility need to be clearly established

How will this evolve over the transition process?
Organizational Structure

• Most traditional and common form is the hierarchical structure, top down command and control
  – Power is at the top, decisions are made at the top
  – Slow to respond to evolving opportunities
  – Provides order and security to the stakeholder team
  – Difficult to transition
Organizational Structure

- Bureaucratic system
  - Responsibility diffused among various levels
  - Each individual constrained by rules and procedures that strictly dictate decision making process
  - Slow in responding to opportunities
  - Least flexible
Organizational Structure

• Human (people oriented) structure
  – Spreads decision making responsibilities among employees and managers, or teams of employees and managers

• A “hybrid” organizational structure might capture some elements of the people oriented structure, while providing some top-down direction— the top down direction can evolve over the course of the transition
Criteria For Choice

- Management and owner philosophy
- Abilities of key personnel
- Size of the organization
- No one structure is best in all situations
- Planners need to weigh advantages and disadvantages of alternatives, and put together a management team and structure that is consistent with the vision and mission of the organization.
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<tbody>
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<td>Decides when to pay bills</td>
<td>1</td>
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<td>2</td>
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<td>Identify sources &amp; negotiate loans &amp; finances</td>
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<td>Negotiate sales of crops/ livestock</td>
<td>3</td>
<td>7=</td>
<td>4</td>
<td>6=</td>
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<td>5=</td>
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<td>Level of inputs used</td>
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<td>8</td>
<td>3</td>
<td>5</td>
<td>11</td>
<td>6</td>
<td>13</td>
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<td>Decide &amp; plan capital projects</td>
<td>6</td>
<td>4</td>
<td>7</td>
<td>9</td>
<td>5</td>
<td>8</td>
<td>5</td>
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<tr>
<td>Negotiate purchase of machines &amp; equipment</td>
<td>7</td>
<td>5</td>
<td>8</td>
<td>12</td>
<td>6</td>
<td>9</td>
<td>8</td>
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<td>Plan day-to-day work</td>
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<td>9</td>
<td>12</td>
<td>3</td>
<td>12</td>
<td>11</td>
<td>9</td>
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<td>Decide work method/way jobs are done</td>
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<td>12</td>
<td>13</td>
<td>10</td>
<td>13</td>
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<td>Decide long term balance &amp; type of enterprises</td>
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<td>5=</td>
<td>11</td>
<td>7</td>
<td>10</td>
<td>6</td>
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<td>Decide timing of operations activities</td>
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<td>10</td>
<td>10=</td>
<td>8</td>
<td>9</td>
<td>7</td>
<td>10</td>
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<tr>
<td>Decide type &amp; make of machines and equipment</td>
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<td>10=</td>
<td>13</td>
<td>10</td>
<td>12</td>
<td>11</td>
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<td>Make annual crop/livestock plans</td>
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<td>7=</td>
<td>9</td>
<td>4</td>
<td>8</td>
<td>4</td>
<td>7</td>
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</table>
Organizational Structure

Successful Businesses Exhibit Shared Decision Making

Develop an “organizational” Chart (now) and (future)

- **Decision Making Group, Owners, Advisors, etc.**
  - **Daughter and Son-In-Law**
    - Day to day operations, Management decisions, Purchases up to $10,000
  - **Off-farm Son and Daughter-In-Law**
    - Financial management Seasonal Labor
  - **Father and Mother**
    - Primary Landlord Equipment Owner Seasonal Labor Business purchases up to $10,000

**Family Meetings Once Per Month**
In the space below, graphically depict the current organizational (decision making) structure of your business. Fill in names, specific responsibilities, money spending authority, etc, for each significant stakeholder or stakeholder group.

An exercise that can be used in Workshops or when working With individual families to think Through the management Transition timeline
Our Farm Organizational Structure

Future

In the space below, graphically depict the future organizational (decision making) structure of your business. Fill in names, specific responsibilities, money spending authority, etc, for each significant stakeholder or stakeholder group.

An exercise that can be used in Workshops or when working With individual families to think Through the management Transition timeline
Farm Business Life Cycle

• Historically Farm Businesses Have Followed the Life Cycle of the Primary Operator
• Does This Have To Be The Case?
• Are There Better (More Efficient) Business Cycle Models?
• Requires a “Plan”
Traditional Family Business Life Cycle

Life Cycle of a Traditional Family Business

Entry
- Acquire land and capital
- Management skills

Growth
- Improve efficiency
- Manage risk

Consolidation
- Debt reduction
- Maintain efficiency

Exit
- Transfer resources and management
- Avoid risk and secure retirement

Relative Efficiency
The Transfer Process – Practical Considerations (Stages)

• Testing
  – Wage Plan, agreement among parties

• Commitment
  – Income division, shifts in organizational and legal structure (operating agreements)

• Established
  – Ownership transfer, flexible legal structure

• Withdrawal
  – Lease arrangements, etc.
# TRANSFER PLAN

**transfer time period**

<table>
<thead>
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<th>Successor Enters</th>
<th>Owner Leaves</th>
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<tbody>
<tr>
<td><strong>Transfer Stages</strong></td>
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<tr>
<td>Testing</td>
<td>Commitment</td>
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<tr>
<td>Labor &amp; Capital Equipment Sharing</td>
<td>Business or Enterprise Operating Agreement</td>
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<tr>
<td>Operational</td>
<td>Managerial</td>
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<tr>
<td>Wage</td>
<td>Wage &amp; Incentive</td>
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</table>

**Transfer Ownership**

**Transfer Management**

**Decisional Authority**

**Transfer Income**
Ownership Structure

Jones Land And Cattle, LLC

- Al Jones, 20% Retired Owner
- Marge Jones 20% Retired Owner
- Frank Jones 50% Owner Manager
- Sarah Jones Duncan 10% Owner
- Kari Jones Smith 0% Has Right To Purchase Any Available Shares
- Sam Jones 0% Has Right To Purchase Any Available Shares
VALUES
What is important to me? What do I hold dear?

VISION
What does the future look like?

MISSION
Why are we here? What do we believe in?

GOALS
What do we want to do? What do we want to be?

OBJECTIVES
How will we measure activity? How will we know when we have arrived?

STRATEGIES
How are we going to get there?

TACTICS
What do we need to carry out our strategies? Who is responsible for the necessary activities?
Planning should be done simultaneously because all planning areas influence one another.
Keys to Success

• Family relationships
• Communication skills
• Recognition of differences
• Management Participation
• Joint Decision Making
Keys to Success (cont)

- Diversionary activities
- Separate Housing
- Flexible written agreements
- Flexible business arrangements
- Concerns of off-farm heirs and others
Don't be afraid to ask dumb questions.

They're more easily handled than dumb mistakes.

William Wister Haines