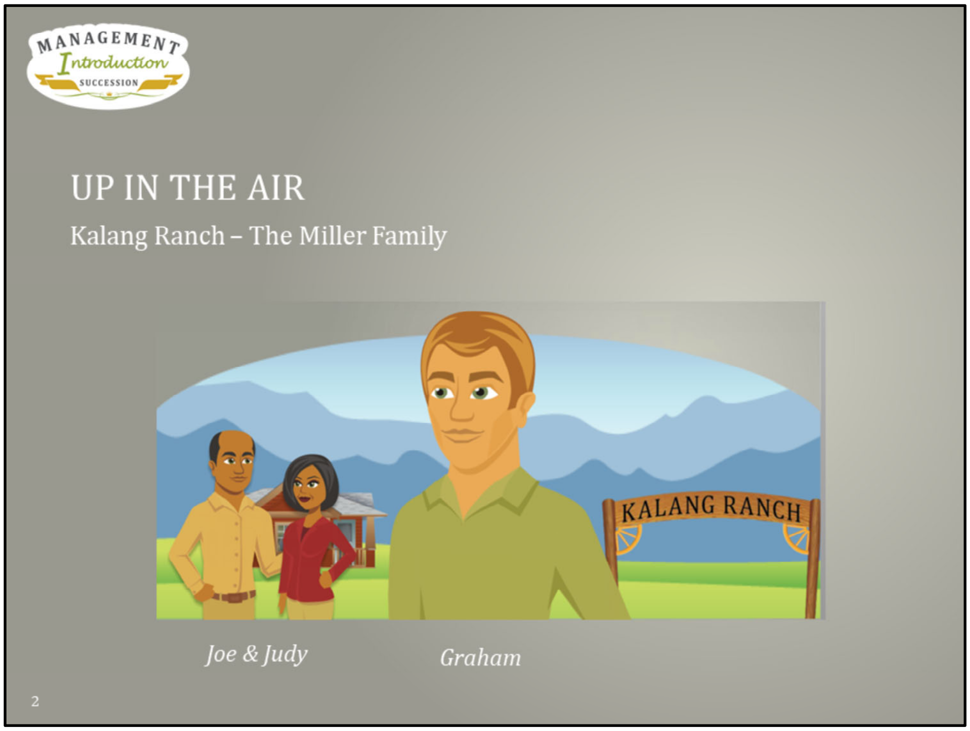
Welcome to the first course in the Management Succession series.

In this course you will learn how to prepare for the transfer of ownership and management of your family business to the next generation. You will explore the interpersonal and business challenges that family businesses must navigate throughout the transfer process and you will assess your business's readiness to begin the succession process.

It is helpful to have a scenario in mind as we go through this course. Let's take a look at the Miller family who own the Kalang ranch and explore their situation.



Instructor: Read the scenario below

Meet Graham Miller. Graham is 44 years old. He grew up working on Kalang Ranch, an operation founded by his parents, Joe and Judy Miller, in 1956. Joe Miller viewed the ranch as his first priority. Judy supported that, as she and Joe sacrificed nearly everything they had to build the ranch into what it is.

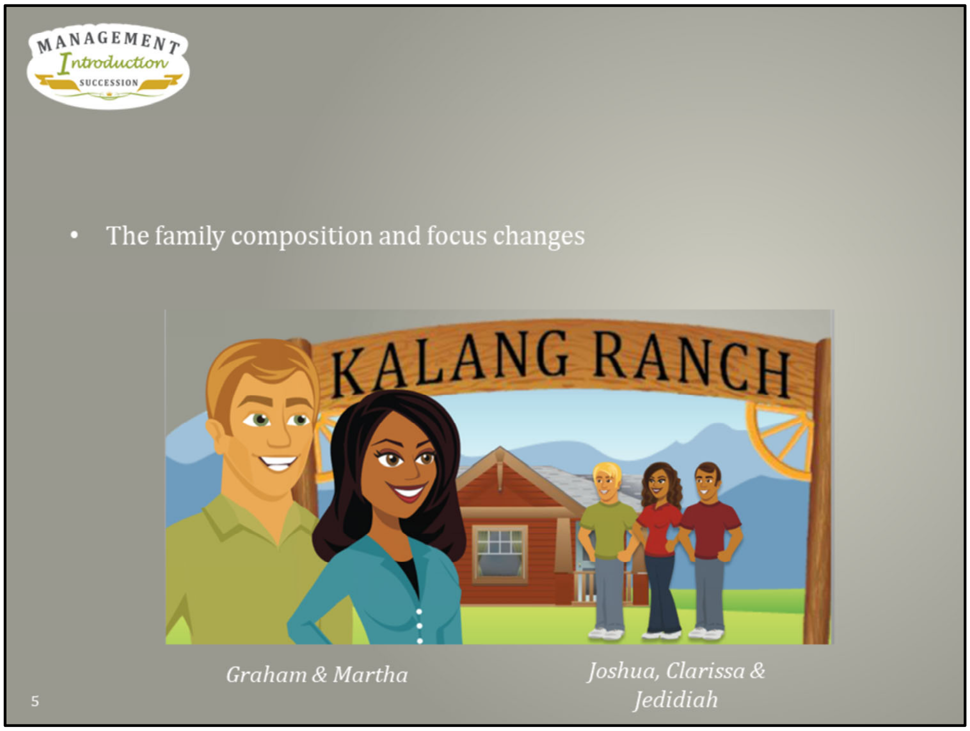
With Graham as their only child, family life revolved around running the ranch. Graham was always with his parents, taking care of the animals or maintaining the property and equipment. Graham never knew any other way, until he met Martha Lopez.

Instructor: Continue reading the scenario below

Graham was introduced to Martha through a mutual friend from school. They had a whirlwind romance and after six months Graham proposed to her. During their courtship it became clear that Martha’s upbringing was very different from Graham’s. While the Miller’s put their business first and family second, Martha’s view was that family should come before anything else. This created tension between Graham and his parents.

Joe often complained aloud that Martha distracted Graham from his ranch work and interfered in ranch and family affairs. Graham could never bring himself to stand up to Joe and ask him be more reasonable. Judy ignored the problem and left her husband and son to work it out.

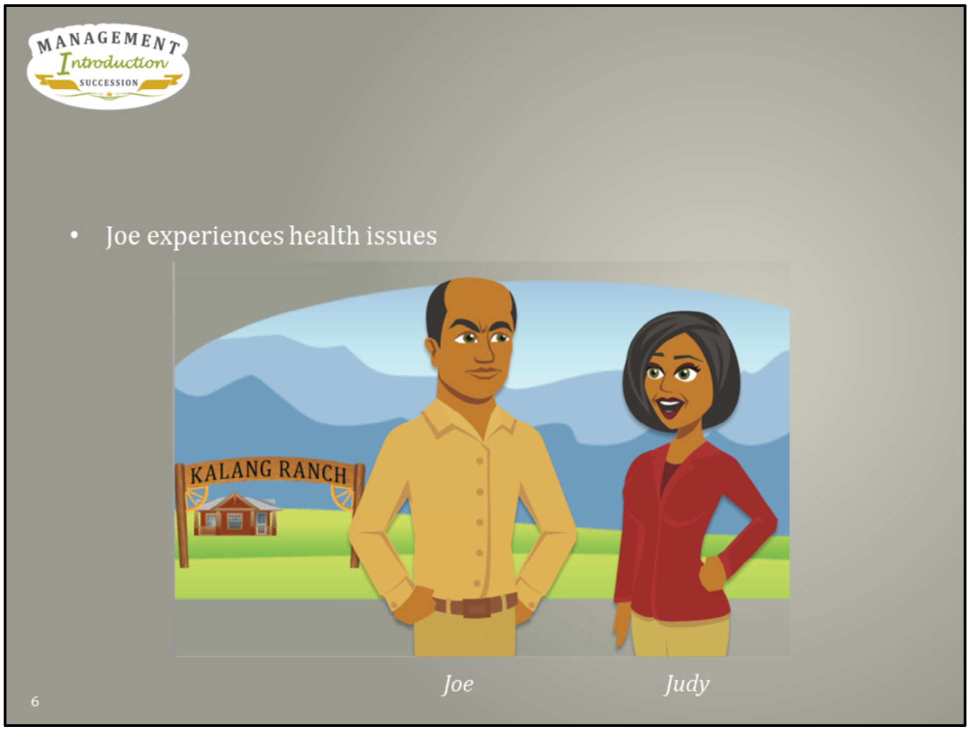
Graham always envisioned himself one day owning and running the ranch. He worked for his father, providing most of the labor and management of the herd, but Joe never involved Graham in the financial or decision-making aspects of the business.



Instructor: Continue reading the scenario below

Given her cold reception, Martha tried to stay away from the ranch as much as possible. Rather than working in the business, she got a teaching certificate and took a job teaching school in a nearby town. She developed her interests and friendships away from the ranch. The tension between Martha and the Miller's grew as Graham and Martha started a family of their own, and the demands on Graham's time increased even more.

Graham and Martha had three children; Joshua, Clarissa, and Jedidiah. While the siblings loved their grandparents, the tension between Martha and Joe spilled over into their own relationships. As teenagers, Grandpa Joe would scold the children harshly if they showed up late for ranch chores. He could not understand their desired to be involved in sports teams, school clubs, and social functions that kept them away from the ranch. As the children grew into adulthood, they lost interest in participating in the family business.

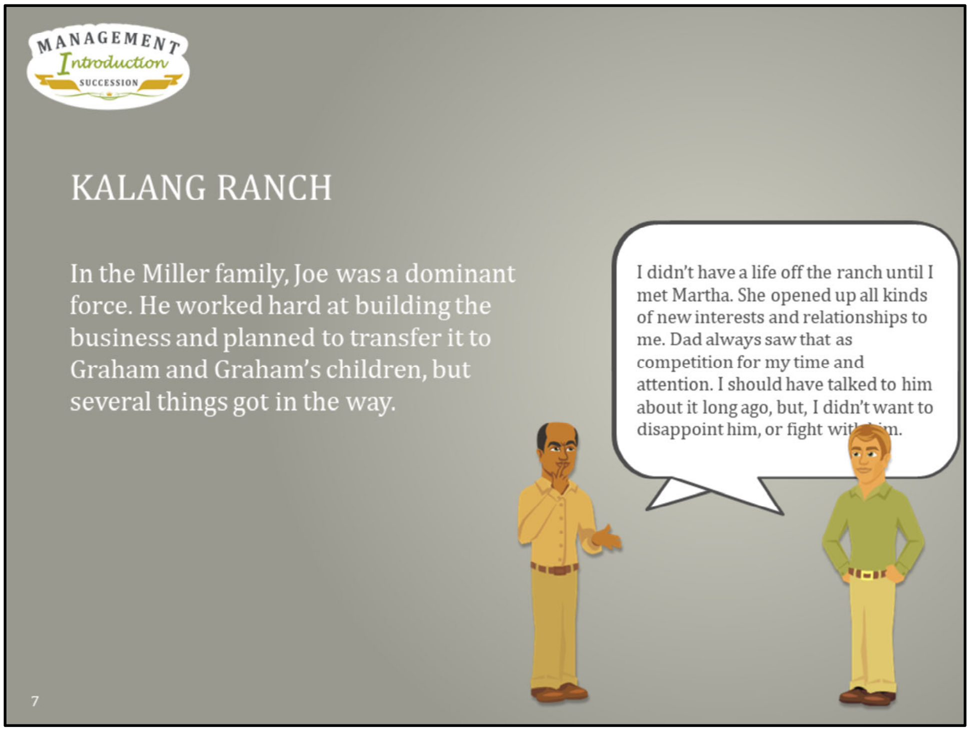


Instructor: Continue reading the scenario below

One summer, Joe began experiencing bouts of abdominal pain. He was never one to just rest in bed, so he worked through the pain. It wasn't until Joe had lost 20 pounds and was in pain nearly all day that Judy was able to convince him to see a doctor. Joe was diagnosed with an advanced stage of pancreatic cancer. Two months later he died.

While Graham knows how to run day-to-day operations, he has never seen the basic financial information for the business. He does not know what his father planned for the future of the business or what their standing is with ranch creditors.

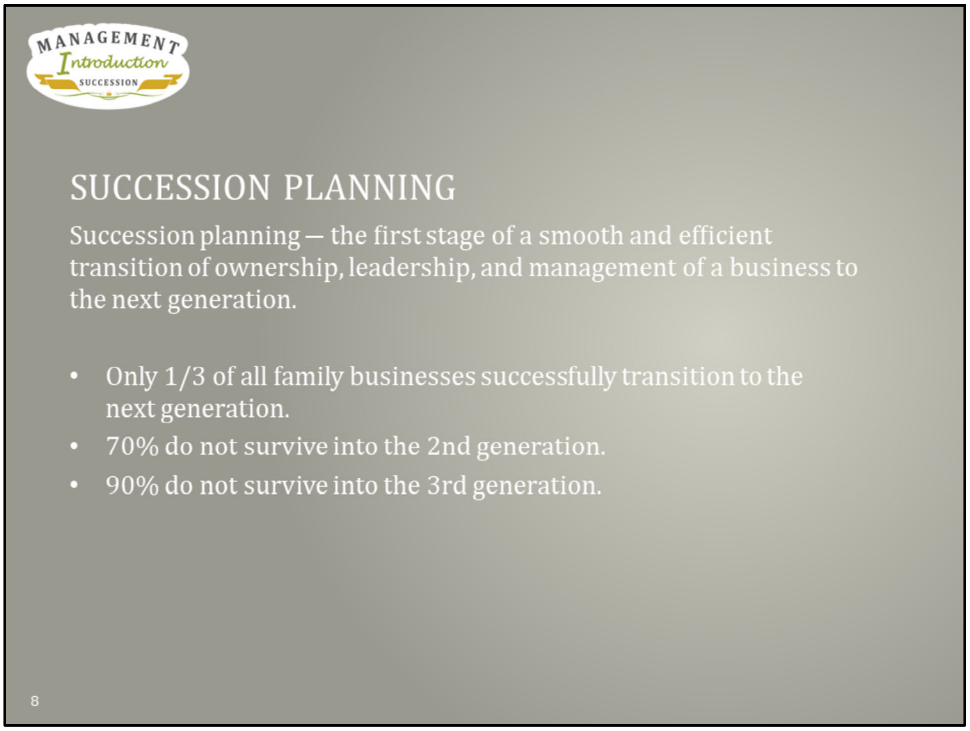
State: Keeping in mind this scenario, let's delve into the issues and how they could have better prepared themselves.



The issues faced by Kalang Ranch are similar to those faced by many family businesses.

Although their story may differ in the details, the problems revolve around a tangle of interpersonal and business issues.

Instructor: Click to see Joe and Graham's comments.



Succession planning is the first stage of an efficient transition of ownership, leadership, and management of a business to the next generation.

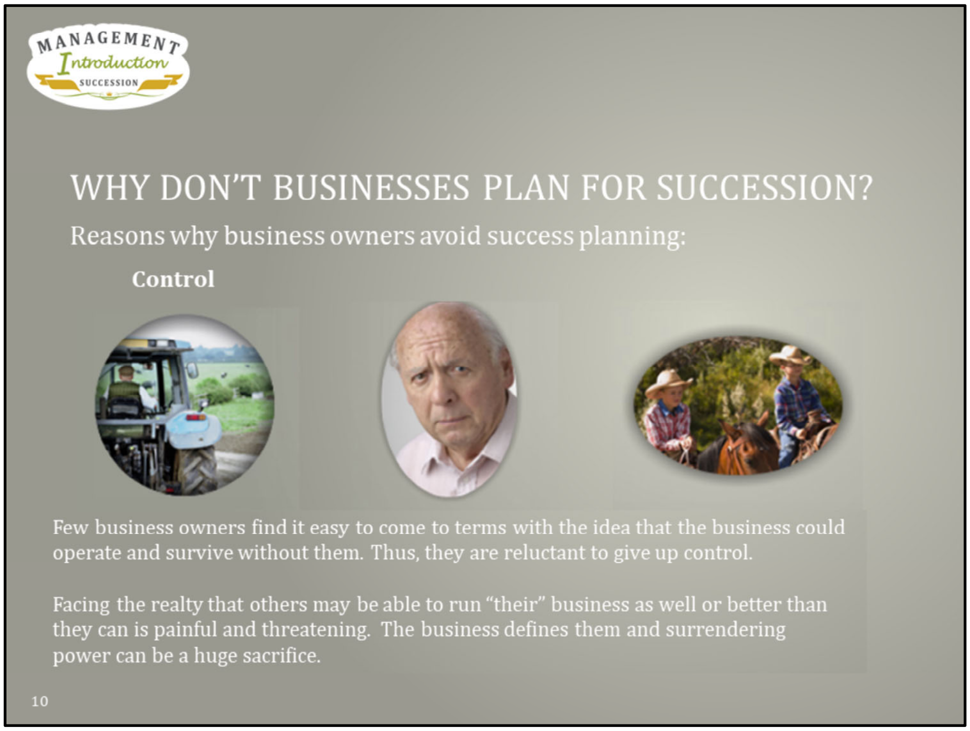
Almost all business owners want their business to transfer to the next generation. Unfortunately, only about a third of all family businesses successfully make that transition. Nearly 70 percent will not survive into the 2nd generation, and 90 percent will not make it to the 3rd generation.

Most business owners recognize the importance of a succession plan in determining whether a business successfully transfers to the next generation. Doing no planning and/or choosing to avoid the issue almost always leads to disastrous results.

However, less than 40 percent of agricultural businesses have a succession plan. So what’s the hold up?

Instructor: Ask the class why they think agricultural businesses might not develop and utilize success plans?

Transition: Those are good possible reasons, and reflect the three main reason. Let’s take a look.

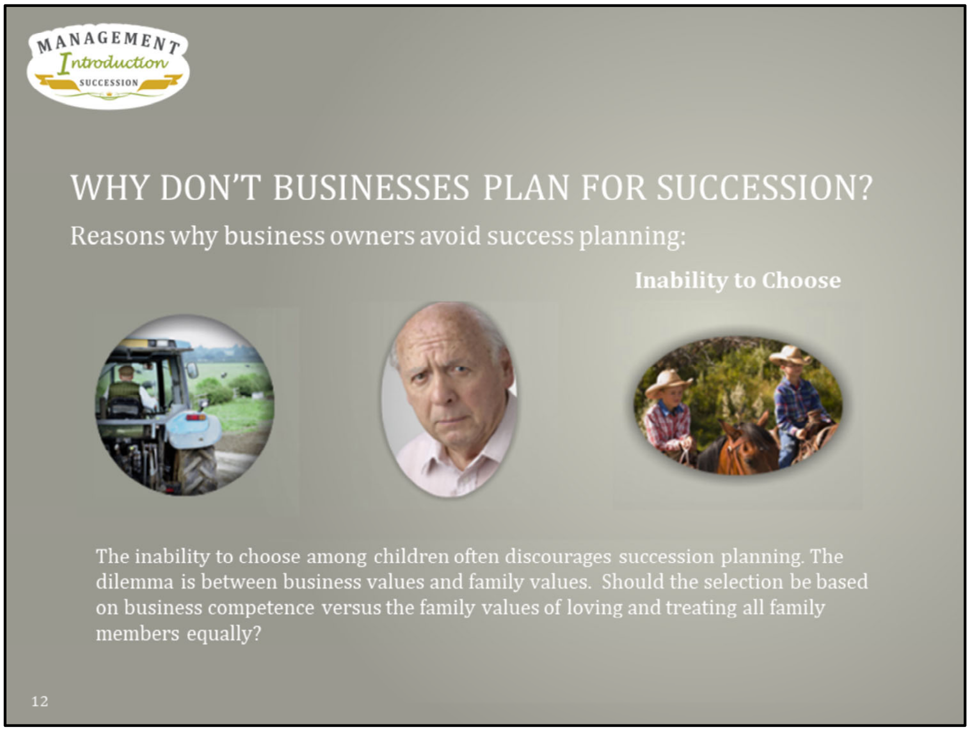


Logic would indicate that developing a succession plan should be an obvious requirement of management and business ownership. However, complex forces are at work and despite recognizing the importance of a plan, most farm owners and managers decide to do nothing about succession.

Instructor: Click through the next two pages for a description for Fear and Inability to Choose

Control: Few business owners find it easy to come to terms with the idea that the business could operate and survive without them. Thus, they are reluctant to give up control. Facing the realty that others may be able to run "their" business as well or better than they can is painful and threatening. The business defines them and surrendering power can be a huge sacrifice.

Fear: Fear of retirement can also be a powerful force. The thought of leaving their day-to-day involvement in the business and adapting to a whole new life style can be scary. Succession planning forces business owners to think about the end of their lives and come to terms with their own mortality. These thoughts can evoke feelings of fear or regret.



Inability to Choose: The inability to choose among children often discourages succession planning. The dilemma is between business values and family values. Should the selection be based on business competence versus the family values of loving and treating all family members equally?

Owning an operating a farm has some unique differences compared to most other occupations. The primary differences that most hinder succession planning in agricultural business include:

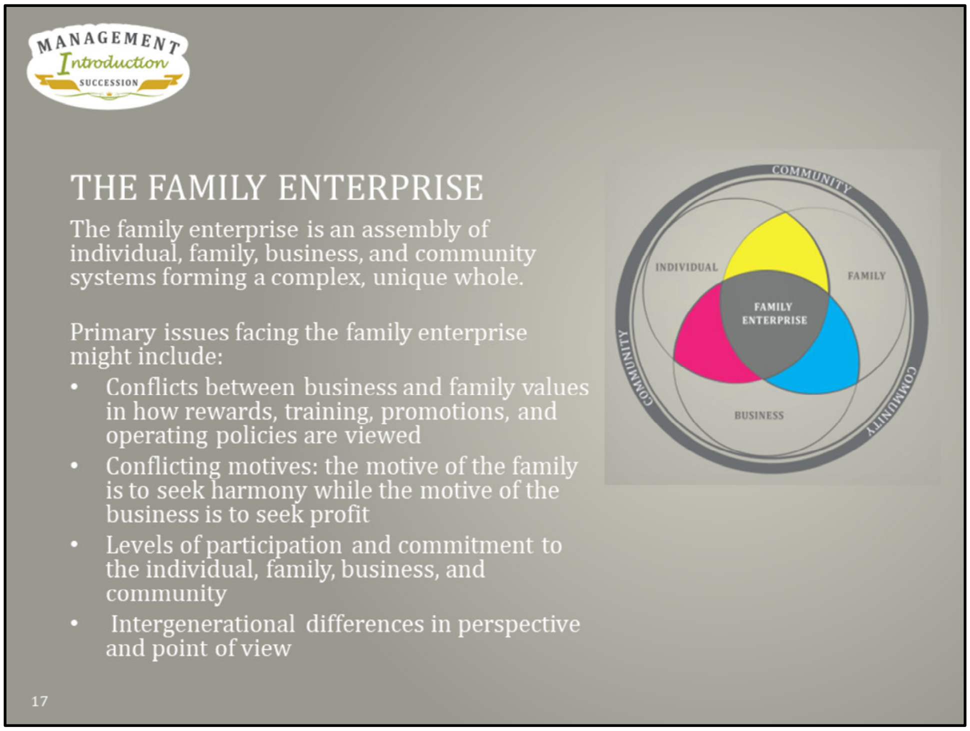
Instructor: Click through this next 3 slides for each of the four reasons to display.

Emotional Attachment to the Land: Most farmers are emotionally attached to the land they own and manage. In many cases, these lands have been a part of the family for more than one generation. Selling or dividing the land is often not considered due to these emotional attachments.

No Plans to Retire: Many full-time farmers have a very difficult time "hanging-up their hats" when the time comes to retire. They often never expect to fully retire from farming. The reasons are many but often center around that 24/7 work ethic and personal drive that led them into farming in the first place. Most farmers have developed a lifelong attachment to farming and many find it hard to accept the slowdown that generally comes with retirement.

Farming Lifestyle: Farming is a lifestyle and most people in agriculture feel it offers something non-farm life can't match—the opportunity to live, work, and play together; live in the country; teach children responsibility, a strong work ethic, and healthy goals and values.

No Retirement Income: No source of retirement income is another issue that often prevents farmers from fully retiring. In many cases, farmers have invested in agricultural assets (land, machinery, livestock, buildings, etc.) throughout their careers and have had few resources to invest in retirement plans. In order to perpetuate the business, it is inadvisable to sell, or otherwise liquidate, productive assets.



The family business is an especially challenging environment in which to live and work. The family enterprise is an assembly of individual, family, business, and community systems forming a complex, unique whole.

Each of these systems overlaps the others to form a focal point where individual, family, business, and community needs collide. Accepting and managing this overlap is critical to successful succession of the business. Depending on how it is handled, the family enterprise can become a zone of destructive conflict or a successfully integrated entity.

This course provides learning modules on a variety of topics to assist participants with the management succession process. The modules can be used individually as a stand-alone resource or together as a suite of resources to provide guidance and information that will be helpful in the process.

This course is organized into three modules which can be viewed in any order. Each module includes an assessment that you can use to determine the readiness of your business for management succession.

Instructor: While the online version may be viewed in any sequence, the suggested sequence is: Introduction, Interpersonal Issues, Business Issues, The Succession Planning Process, and Where Do We Go From Here

Transition: Keeping in mind the Kalang family, let's look at some of the interpersonal issues they faced.