



How to Retire Successfully

By Curt Olson

One of the most difficult decisions family businesses face is planning for succession. It requires the chief executive officer knows when and how to step aside. It's a topic most are aware of and many avoid. That choice can sink a lifetime of work.

Negotiating the ownership or management transfer can be tricky. If the business is to survive, it is critical a plan exists that allows for the next generation to gradually assume responsibilities and accountability as the successor grows into the job. Otherwise, the new chief executive officer enters with no experience dealing with critical issues like lenders, suppliers, business contacts, etc.

"There has to be a formal transition process," says Dr. Danny Klinefelter of Texas A&M. "You kind of phase out of it. Some of these responsibilities you learn as an employee. Then you share in some duties, and eventually take over some until you're ready to take over the business."

The transfer plan needs to be in place because, as Danny points out, sometimes the unexpected happens. Without a plan, in the event of the sudden loss of the business leader, it's possible the family business can implode. The new leader's style, suddenly thrust onto the business, may upset some who are key people and the business can lose talent.

It is important that family members find value in what they're doing. This also applies to any spouse, particularly those who have relocated for the business and find themselves in a foreign land — rural America, very rural America. Danny says the family must find a way to ensure that person is professionally fulfilled as well, either inside or outside the business. Otherwise, marital pressures may force that couple to relocate to an area where both can work. In some cases, the pressure can lead to a divorce that adds a new partner to the business.

Stepping Aside

The big question is will the older generation truly retire and step away? This can be hard to do, especially if the retiring party relies on the business for retirement income, or still lives on the place. Then he sees someone else making decisions and working on an operation that the retiree has invested his life in building.

Frequently the retiring party just can't do it. Part of the reason is his self identity is tied to his work.

"A lot of farmers and ranchers, they're entrepreneurs and have been consumed by it all their life. They haven't developed a lot of other interests," Danny says. "Those who can do it phase themselves out and find other activities to challenge themselves physically and mentally."

To exit successfully, Danny says, if you've been a dynamic, hard working person, you need something else to go to, a new direction in life.

"The exiting party better start working on those things," he says. "For those who don't, retirement will go great for about a year."

Fair vs. Equal

For parents, one of the hardest things to figure out is the transfer plan, especially when there are multiple children. What's fair? Who gets to work in the business if it isn't big enough to support everyone? How do you value assets or shares, especially if some of the children want nothing to do with the business?

An important part of every family business is to have a buy/sell agreement. Danny says it is as important as a will and must include family members outside the business because divorce makes the business community property. The buy/sell agreement recognizes that things happen — divorce, death, disability and departures — that can affect the business and it determines

how the business will be valued and how these changes will be paid out.

"People have different values for what they're willing to put at risk," Danny says. "They've got to decide if they can agree on where the business is going to go. We don't have to all agree all the time but we have to have a process to get things out."

That means recognizing there is a difference between treating people fairly and treating them equally. For instance, if one sibling worked in the company, took it over when it had \$3 million in sales and built that up to \$20 million and doubled the net value it returned, should he receive the same shares or compensation as siblings who weren't involved in the operation? It doesn't seem fair, but it would be equal. Is it fair that he increases the value of the business but has to buy that from his siblings?

In the end it comes back to communication and planning, and as Danny advises, regular family meetings where things can be discussed rationally and openly.

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