Management Transitions: Handing Over the Reins

By Danny Klinefelter and Brent McCann

"Successful management transitions don't just happen... they are planned."

—Dr David Kohl[1]

When a family farm or ranch is handed down to successive generations there are a multitude of potential economic and relationship issues that can derail the best-laid plans, but foresight and planning will greatly improve the odds of a successful management transfer. Most successful cases we have observed during the past 30 years were due to early and deliberate planning. Good transitions between managers leave little to chance (Table 1).

Some ranch families may think the title Chief Executive Officer (CEO) sounds too corporate for ranching and does not apply to them. On many ranches it may be "Dad" or "Grandpa," or it could be "Grandma." If the ranch is managed by outside talent, it may be "the general manager." Whatever the title, there is one decision maker who carries more weight than all others and for the purpose of this discussion, that person will be the CEO. For a family ranch to make it from one generation to the next, with every CEO there must be a successor. Here again someone may say that life on our ranch is not so simple. However, one of the keys to successfully passing on the ranch to the next generation is planning for the future. Thinking in terms of "CEO" and "successor" is the first step in that direction.

The focus of this article will be on four problematic aspects of the transition process: 1) a reasoned approach to identifying the right successor, 2) open and honest communications on the ranch, 3) development of the successor, and 4) the exit of the current CEO.

The Successor

There are countless ways that the reins of a ranch can be passed on from one CEO to the next. Certainly, there are amazing stories of how someone with little insight or experience rose to the occasion and assumed responsibilities of a ranch, improving its performance and bettering the lifestyle for everyone involved. There are many more stories where this did not occur. Often the selection of the successor is left to fate or convenience. If ranch families are serious about passing on the ranch, they must realize that successors should be picked not only because they know the business, but because of their ability to lead.

Leadership revolves around vision, ideas, direction, and being able to inspire people. A leader is great not because of his power, but because of his ability to empower others. The industrialist J. Paul Getty believed that regardless of an executive's intelligence, knowledge, or experience, if he could not achieve results through people, he was worthless as an executive.[2]

Some people find themselves being a successor because they live at the ranch, or perhaps out of out of a sense of guilt or loyalty, or to avoid being disinherited. Still others are successors because it was the path of least resistance. Others could not get another job elsewhere offering the same opportunity or lifestyle. In some cases, the problem of choosing the right successor occurs because it is impossible for parents to be objective when assessing the skills, abilities, and competencies of their children. Although occurring less frequently than in the past, primogeniture, the exclusive right of inheritance by the eldest son, may be the deciding factor. If successors are not objectively chosen on merit, they may not be capable of handling the position of the ranch's CEO.[3]

Two pioneering management studies, both published as best-selling books, *Good to Great* and *First Break All the Rules: What the World's 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 by getting the wrong people out of the business.[4] This may mean that a family has to recognize that a younger son or a daughter has the best leadership qualities. Perhaps the family sees that only outside talent can keep the ranch in the family for another generation. These are hard questions to answer, but ranches have a much better chance of lasting another generation when the successor is objectively selected and prepared for the position of ranch CEO.

Communication

Good communication and interpersonal relationships are imperative to overall ranch performance and sustainability. Although poor business decisions can cause the ultimate

Table 1. Ingredients for successful management transition
Open, honest, and mature two-way communication.
Development of a common vision for the business.
An assessment of the needs of the business, not just for now, but also for the future. (This includes determining what skills and attributes will be needed.)
An objective assessment of the strengths and weaknesses of the current CEO. (This includes assessing the CEO's 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.
The creation of a management development plan that addresses the successor's strengths, weaknesses, and experience.
Involvement of the successor in the development of the business plan and in the strategic decision-making process.
Planned experience, exposure, and networking opportunities for the successor, not just outside the business, but also outside the industry.
Ongoing delegation of responsibility and authority to the successor, with a specific timeline.
Implemented plan for what the current CEO is going to do next.

failure of a business, too many farm and ranch businesses are torn apart and fail because of communication and relationship problems. Peter Drucker, often called the father of modern management, attributed 60% of all management problems to poor communication. But relationship and communication issues are not limited to the current CEO and the successor. Family members, key employees, siblings who are shareholders, grandparents, and in-laws can all cause the best plans to fail. It is important to know that certain common behaviors can cause communication and relationship problems.[5]

Disagreements between people are inevitable and normal. In fact, if the business is going to change and grow, they are essential. Henry Ford was known to say that if two people in a business agree on everything, then one of them is unnecessary. However, if two people disagree all the time, then both of them are useless. The problem occurs when disagreement grows into conflict.

Conflicts can occur when people will not admit they are wrong. Rather than pursuing a rational discussion, this behavior often produces a number of unproductive outcomes, not to mention embarrassment and resentment. Unresolved conflicts can be a problem as well. These act like an insidious cancer eating away the inside of the business. When the cancer becomes serious enough, the ranch fails to exist.

At a minimum, people must adhere to some basic ground rules when communicating. For example, 1) avoid personal attacks, 2) do not force others to take sides, and 3) do not use subversion. People must focus on the issue at hand and keep heated discussions private. Sometimes, in order to effectively communicate people may need to develop both emotional maturity and interpersonal skills. It also helps if the parties involved have some understanding of personality styles and generational differences.

Unresolved conflicts need to be addressed and put to the side. One brother may have pushed another brother during an argument years ago. The initial act was juvenile and uncalled for, but holding such a thoughtless act against someone for years or decades is also not acceptable. Having a successful family ranch that lasts generations requires forgiveness and knowing the importance of letting go of past transgressions. People who work well together tend to follow two basic rules: 1) the Golden Rule—treat others as you would like to be treated, and 2) the Platinum Rule—treat others as they would like to be treated.

At the management level, a CEO cannot act as a dictator. For example, if a CEO crushes any challenge to his or her authority, other people may simply give up challenging the leader's ideas or assertions. This is a management style that is best suited to a business in its last generation because it is an extremely hard system to work in, let alone develop a capable successor. CEOs must be self-aware and recognize when they display the antics of a dictator. Brute force and belligerence are undesirable leadership qualities if CEOs desire to pass the ranch on. These behaviors will not help the process; they prevent constructive discussion and resolution.

Secrecy also has negative impacts. Far too many CEOs provide information to others solely on a need-to-know basis. This behavior keeps everyone around the CEO in the dark, and breeds suspicion about whether the assets of the ranch are being handled with all of the stockholders' best interests in mind.

CEOs need to be comfortable when asked questions by successors or other key employees and family members. CEOs should be willing to provide answers to anyone who has a stake in the business. Without transparency in a family ranch, stockholders may question the merit of certain decisions and become suspicious of one another's motives. People, even from the same family, often have different goals, priorities, and vested interests. Everyone may agree on the costs and benefits of a decision, but still disagree on what to do because of how risks and rewards are shared. Those working in the business tend to be focused more on reinvesting in the business and future growth, whereas those outside the business may view it as an asset on their balance sheet that is not generating an acceptable return. Even within the business, the current CEO and the successor may have different views because of their stages in life. The current CEO often has more equity at risk and is concerned about long-term security, particularly if his or her retirement is going to be funded out of the business.

Leading the ranch business through the process of developing a shared vision is an important preemptive measure that CEOs should take to help unify members and promote transparency. If successors are included in this process, there is even greater benefit. Separately, CEOs and successors should outline their vision of the ranch and its future. Their thoughts might pertain to their personal core values, visions, and goals; other thoughts might address the ranch's mission and objectives, as well as strategies and tactics (Table 2). CEOs and successors should then share their thoughts and develop a common vision. CEOs and successors doing this exercise will benefit the ranch several ways. Stakeholders will know where to focus their efforts and be able to assess if future ranching decisions will achieve desired goals. Lastly, it provides all stakeholders the ability to prepare for the future and address the ranch's overall sustainability. With proper communication the ranch has the opportunity to thrive and the successor, the opportunity to grow.

Table 2. Guide to developing a common vision for the ranch

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

Goals
- What do I personally want to achieve?
- What sacrifices am I willing to make in order to make it happen?

Vision
- What is my view of the ranch's future?
- What do I want from the ranch?
- What do I hope will happen?
- What am I afraid might happen?

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

Monitoring
- How will I measure both the ranch'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?

Preparing the Successor

Mark Voeller, a nationally recognized family business consultant and author of the book *Exit Right*, writes that 60% of failed management transitions are due to unresolved family conflicts and communication issues, and another 25% are due to poorly prepared successors.[6] Primary mistakes leading to poorly prepared successors occur when expecting them to learn by osmosis, limiting their experience to the ranch at hand, not providing affirmation or guidance, and not allowing them to take advantage of continuing education. A promising colt cannot become like the best mount in the herd by simply pasturing them together. Proximity alone does nothing for the animal in terms of learning. If a young horse is never pushed beyond his comfort zone, given opportunities to see new things or prove himself, or commended for his successes, psychologically he will remain a colt.

There are three areas of development that must be considered when preparing successors: 1) they should know their ranch operations, 2) they should be given opportunities to obtain leadership experience, and 3) they should learn to set goals that will put the ranch in the top of the industry.

Learning the Ropes

The best way for successors to understand a ranch is for them to be involved in the planning process, in which every facet of the business is explored. The process, discussions, and information shared in the planning process can effectively prepare the successor to understand the operation and develop necessary management skills. A good CEO sees planning as an opportunity, not a chore, and should instill this view in the successor (Table 3).

Many successful family businesses are not satisfied with just a detailed business plan. The best in the business develop short-term contingency plans for dealing with the unexpected. At a minimum, ranches should plan for death, divorce, and disability, along with other unpredictable events. Examples are 1) a disease outbreak, 2) loss of a key employee, 3) loss of a lease, 4) loss of financing, and 5) the sale of the ranch. In addition to these contingency plans, CEOs and successors should also work together to formulate long-term strategic plans.[2]

When creating plans, CEOs and successors must keep in mind the difference between doing things right and doing the right things. Failures have occurred where a business did something well, but it was no longer relevant, or what the market wanted. Outcomes of specific plans must be monitored continuously and regularly updated to reflect changing conditions and circumstances.

Table 3. A well-prepared business plan achieves a number of things
It improves internal and external communication.
It evaluates the feasibility of plans and their sensitivity to different assumptions.
It helps discover and anticipate problems and limitations, as well as discover and evaluate opportunities.
It helps acquire 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.
It builds the commitment to specific goals.

Gaining Experience

Monitoring plans provides another opportunity for successors to learn the business because monitoring provides insight into how decisions and their execution affect outcomes. For example, questions can be posed concerning past events, providing an assessment of the following: What was overlooked? What assumptions were wrong? What should have been done differently? Were there mid-course adjustments that should have been made? Are there any leading indicators or more detailed information that needs to be considered in making future decisions? Most importantly: What did we learn? In finding answers, successors can develop the ability to spot problems and opportunities before it is too late. They also learn to treat the cause and not just the symptom of a problem. Successful CEOs do not jump to conclusions. They have learned that simple solutions to complex problems, though seemingly obvious, are often wrong.

When analyzing performance, successors can develop strategic management skills. Managing strategically is largely a matter of anticipating future events, recognizing emerging problems before they occur, and taking corrective action while the window of opportunity for effective response is open. Hockey great Wayne Gretsky was a strategic player in his game and he summed up his technique in saying, "A good hockey player plays where the puck is. A great hockey player plays where the puck is going to be."

Successors need to learn the Pareto Principle, also known as the 80:20 rule. This rule says that 80% of the effects are produced by 20% of the effort. The most successful CEOs look for the important 20% and that is where they invest their time and resources. The other 80% is either eliminated or turned over to someone else. The major reason goals are not achieved is because people spend most of their time working on the 80% and doing secondary things first.

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, including dealings with 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 agreements. It is critical for successors to be included in these negotiations even if at first it is only as observers.

Even though ranching is facing an increasing need for specialized knowledge, successors must be given opportunities to broaden their horizons and test their mettle. Some family businesses actually require the successor to have 3–5 years of experience elsewhere, and to have earned at least one real promotion, before they come back to the business.[3] These experiences might bring fresh ideas to the ranch, but at a minimum the successors see different management styles and have an opportunity to prove themselves in an environment where they are not the "crown prince" or "the kid."

If a business is large enough, another means of educating successors is to make them responsible for a particular enterprise or location. This experience can help deepen the understanding and broaden the perspective of the successor. It is difficult to manage without appropriate prior experience and knowing how to assume responsibility.

As successors gain experience and test their wings they will benefit from performance evaluations. Instead of the traditional performance appraisals, a better alternative is known as a negotiated performance appraisal.[7] This approach is not about pay; it is a coaching tool.

The negotiated performance appraisal addresses two basic problems that are often stumbling blocks to effective evaluations. The first is that if the people being reviewed know their weaknesses, they prefer to point it out themselves. The second is that it helps CEOs identify ways they can be more effective in helping the successors develop to their fullest potential.

The negotiated performance appraisal begins with both CEOs and successors preparing separate lists prior to the actual performance review. The CEOs list where the successors are meeting expectations, where they are improving, and where improvement is needed. Likewise, successors list functions they have mastered, areas in which they have improved, and where they think the CEOs would like to see improvement. They then list how CEOs can help them be more effective.

Each list is exchanged for review and discussion. The focus of the review session is then on recognizing the successors' 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.

Staying on Top of the Game

It is important to realize that the growth of successors should not stop when becoming CEOs. There always will be a need for continual exposure to different perspectives and new ideas. Former chairman and CEO of General Electric, Jack Welch, believes that the only truly sustainable competitive advantage is the ability to learn and adapt faster than your competition.

Peer advisory groups can be a cost-effective way to help the current CEOs stay on top of the game while helping successors to advance. These groups are typically made up of five to ten producers who may or may not be in the same industry. They are not usually neighbors or direct competitors and bring to the table different strengths. In the most successful groups, members communicate with openness, candor, and trust. The value of a peer advisory group is that members may hear things they do not like, but need to hear. Some groups use a professional facilitator. Others rotate leadership of the discussion among the members. Meetings are usually monthly or quarterly. Peer advisory groups essentially allow their members to have an outside board of directors, or advisors that have shared interest in the enterprise.

Seminars, symposia, and other formal education programs are another beneficial component of successor development and can help CEOs stay abreast of industry changes. These include skills training and knowledge-based programs in areas identified in the transition plan and the performance appraisal process. Good programs expose current and future managers to different perspectives, new ideas, and alternate approaches. Although it is important to participate in educational programs specifically targeted at a ranch's area of interest, the most successful management teams make it a point to get outside their commodity, their geographic area, and even beyond agriculture as part of their continuing education. If they do not venture beyond known subjects, they will always be several steps behind leaders that do.

CEOs and successors need to make sure they are seeking out and interacting with the most successful people they can find inside and outside of their industry in order to inspire greater motivation and personal growth. Successful people challenge you, and force you to think. They cause you to consider alternatives and other world-views. As the old saying goes, "If you want to fly with the eagles, don't scratch with the turkeys."

Exit of the CEO

Following proper successor development, the final step in the management transition process is the handing over of the reins. Although this may seem a simple step, there are a number of considerations to keep in mind in order to accomplish this last step gracefully.

During the transition process there needs to be an established timetable of when a CEO will pass duties on to the successor. This timetable can detail when the successor receives certain responsibilities and authority. This prevents successors from becoming frustrated and outgoing CEOs from procrastinating.

It is important to recognize that the process is not just of becoming a CEO, but of the current CEO attaining post-CEO goals. It is a process that enables family members and other key employees to adjust to a new leader. The current CEO must support the transition. This allows the successor to make significant changes, if necessary, without the changes being perceived as an indictment of the past or criticism of their predecessor. The outgoing CEO should also be given the opportunity to grow into their new role in the ranch business. Leadership in purposeful community activities is an excellent activity that benefits the outgoing CEO, the ranch business, and of course the greater community.

It is not always possible to follow the transition timeline. The death or disability of the CEO can and often does happen too soon. If such an event occurs, having a successor in place with any amount of development surrounded by people who know how to communicate well and share a similar vision will assure the continued success of the ranch.

Concluding Comments

There are four critical areas that need to be addressed when handing over the management responsibility of a ranch. They are 1) choosing the right successor, 2) communicating and striving for business transparency, 3) providing the successor opportunities to develop necessary skills, and 4) having an exit strategy for the current CEO. For a family ranch to successfully achieve all four critical areas may be unrealistic; however, recognizing that these targets exist and are important is a good beginning. Even if a ranch only has the opportunity to accomplish the first two before something unexpected happens, the odds of a successful management transition are greatly improved.

Dwight Eisenhower once said that in times of crisis, plans are often useless, but planning is absolutely essential. With any successful business, planning never stops. Ranching is no exception. Although certain contingency plans may not be enjoyable to think about, developing a plan to pass the ranch on to the next generation should be a positive experience. It is an opportunity to look forward to what lies ahead for the ranch and to imagine how the operation will be improved by those next in line. If successfully handing over the reins is not already a tradition at your ranch, then the current family management team has the opportunity and the responsibility to be the first to do it.

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Robert East, steward of the land. Photo by Janell Kleberg.