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An Agribusiness H.R. Issue: Succeeding at Succession in the Family Business

*Global Networks, Global Perspectives and Global Talent
Discussions on the Development of Human Capital in Agribusiness¹*

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Abstract

The issue of succession in family owned agribusinesses may be a contentious matter, but it need not be if carefully considered well in advance of the need to seek a new leader. Nevertheless, succession is particularly disruptive since the founder-owner has been central to shaping and developing the company. At the early stages it is crucial that companies improve succession by strengthening the company's leadership development and focus on those people, internal and external, who might one day take on the role of CEO. Potential new leaders must be good for the company's existing customers, for the company itself and for the management team. A leadership development program which considers succession as a central element at all levels in the company can be a major part of the company's value proposition, one that competitors cannot understand, let alone imitate.

Keywords: family agribusiness, disruption of succession, managing talent for leadership

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Introduction

Succession is a highly disruptive event in the life of any organization, but can be particularly so when it involves a retiring founder-head of a family business, however much in agreement (s)he may be with the departure. In this article we examine the issue of succession in family agribusinesses, where agribusiness is the convenient labeling obtained by grouping agriculture and family business to include the range of activities and disciplines encompassed by modern food and fibre production. Many agribusinesses, large or small, are frequently family owned and passed down from generation to generation. A complication arises in regard to succession in family agribusinesses not found elsewhere. Traditionally the family agribusiness was viewed like the farm before it, as a lifestyle to be preserved for tradition's sake, or as a birthright where succession was reserved for the first born son moving on to any male heir. Nowadays, daughters are, also considered to be one of the most underutilized resources in family agribusinesses. In family businesses, generally, women account for a growing percentage of all family business leaders but whether this trend has extended to family agribusiness is doubtful. Modern family agribusinesses, however, have begun to encourage female successors and nurture them by assimilation into the family agribusiness, mentoring them and sharing important tacit knowledge and having positive role models within the business.

The issue of succession in family agribusiness is important, as there are family members, one or more, and families, one or more, who have a significant ownership interest in and significant commitments toward the overall well-being of the agribusiness. Family agribusinesses may have owners who are not family members, and these firms may be managed by individuals who are not family members. Family members are, however, usually the senior leaders and managers of the firm. Many agribusinesses that have grown into large public companies were once family businesses.

Two principal factors affect the development of family agribusinesses and succession: a) the size of the family relative to the size of the business and b) the suitability of candidates, whether family or non-family, to lead the business in terms of technical and managerial ability and commitment. Successfully balancing the differing interests of family members and/or the interests of one or more family members on the one hand and the interests of the business on the other require imagination, special competencies, character and commitment on the part of the leader and, most of all, the ability to communicate and command respect.

Families confronted with these circumstances face three challenges. First, since the founder-owner has been central to the company's operations and has shaped its strategic values and goals and dominated its behavior, succession may be disruptive to strategic direction. The departure, expected or unexpected, of a founder-owner means that the person who has been the manager, marketing, customer-relationship, and technological driver of the organization is suddenly removed. Agribusinesses, the smaller ones in particular, are characterized by the lack of formalized organizational structures and operating processes which results in the absence of a leadership structure with insufficient senior managers to provide continuity. Agribusinesses with this profile are heavily dependent on the founder-chief executive, so departure can be particularly dangerous for the survival of the company.

Second, founder-owners have a much closer emotional relationship with the venture they started and so the psychological attachment and resource commitment is stronger. Founder-owners often see their ventures as extensions of themselves, to such an extent that company image and individual ego merge; it becomes difficult to speak of one without the other. This bonding of founder-owners with their creations can adversely affect attitudes toward succession.

The third challenge is a paradox. Success for the family agribusiness frequently brings a change of command whereas in larger companies failure forces change. Success in reaching critical milestones in the family agribusiness makes it much harder to convince the founder that a change is needed, thus increasing the chances that the succession event will be disruptive. The pressure for change is exacerbated when new milestones are required for the continued good health and growth of the company. It may be that the

incumbent leader may not have the skills and competencies required to successfully introduce new technologies and/or new products or to develop new markets. Observe the paradox – failure in large companies causes rapid and frequent changes in CEOs, whereas success reduces dramatically the chances of replacement. The opposite is true in family owned businesses. Hence, the founder-owner can be forgiven for exclaiming ‘but I have been very successful, why do you want me to go?’

At some stage, however, for both operational and strategic reasons and perhaps acknowledging the founder’s personal desire to retire (s)he will reluctantly seek a successor. The danger is that such reluctance among founder-owners may further complicate the process as they insist on replacements with such exaggerated ideal qualities that merely reinforces the resistance to any such change and thereby postpones his/her departure believing that only (s)he is capable of bringing the family agribusiness forward. Hence, timing of succession and established procedures are critical considerations.

Succeeding at Succession

The most important thing companies can do to improve succession is to strengthen their leadership development and focus on those very rare people in their ranks who might one day become a CEO. Companies must identify high-potential candidates early in their careers, and global companies must look for talent in all the countries where they operate. However done, there are four key requirements for a successful passing on of the leadership of the family owned business:

1. Candidates for leadership should have progressed through positions of responsibility in the business. They get to know the business, so succession becomes seamless.
2. Where necessary, the company will have to create jobs and projects to test candidates.
3. It is essential for the health of the company that elevating unprepared internal candidates is avoided
4. Flexible structures should be created within the company to allow good candidates to be identified.

The very best preparation for a new chief executive is progression through positions with responsibility for steadily larger and more complex profit & loss (P&L) centers. A candidate might start by managing a single product, then a customer segment, then a country, then several product lines, then a business unit, and then a division. Whatever the progression, P&L responsibility at every level is of central importance. Candidates for leadership must thrive on taking personal ownership of important decisions in the company and must be given enough scope to succeed or fail.

Companies not set up to provide such opportunities should create jobs, large projects or small internal organizations within their company, that exercise P&L muscle. Otherwise, they risk elevating an internal candidate who is not prepared. Companies with inflexible functional structures will probably be forced to seek P&L tested leaders from outside and place them in very high positions in the company. To reduce this risk, they should bring in such executives three or four years before the expected succession to allow them to take over in an orderly manner.

The Three ‘Fits’ Imperative

Company leaders, family owned businesses included, should be as well defined as puzzle pieces; their strengths and experiences must match the shape of their company’s needs. That is, they simply must fit the culture of the company to meet the *three fits imperative*:

Boards achieve fit by specifying, in terms as precise as possible, three or four aspects of talent, know-how, and experience that are non-negotiable.

1. They must be good for the company's existing customers
2. They must be good for the company itself
3. They must be good for the management team

Benchmarking internal candidates against outsiders and making sure that board members consider all possibilities, even if they prefer an insider, can be well worthwhile. Extensive and detailed discussions among the board members are, however, always necessary to identify hidden agendas and ensure they are removed. This process, helped by well-directed professionals, helps refine requirements to reach a consensus.

Board members must carry out due diligence on outside candidates and do it well. They should ask first about the candidate's natural talents. If those gifts – admirable as they may be – do not match the position's specific profile, which are determined by team requirements in addition to the other more obvious factors, such as a change in company direction, that candidate is not worth pursuing.

Lessons to be Learned

Managerial succession is often so neglected and badly managed by founder-owners that team talent is lost. The process outlined above may help. A candidate for a CEO vacancy should have the capacity to:

- Maximize team talent in the company
- Preferably proven in previous positions
- The candidate must fit the culture

Many organizations mistakenly believe that an insider is more likely to be aligned to the culture but an outsider often resurrects team talent after the failure of insiders. It is essential to plan leadership succession to avoid experiencing a steady attrition of talent or retaining people with outdated skills.

Fundamental to succession management is the underlying philosophy that states that the best talent in the firm must be managed for the greater good of the firm. This talent management should be part of the brand. The chief executive is responsible for the overall strategy of the team and the primary guardian of the company brand values and is also responsible for ensuring that everyone:

- Knows what it means to be part of the organization - understands the brand
- Knows the company's ultimate goal
- Knows how the chief executive intends to pursue that goal (the strategy)
- Knows the process/procedure the chief executive intends to employ (the tactics) among other things
- Knows what constitutes acceptable behavior and performance

Planning for succession in any firm is a process for identifying and developing internal people with the potential to fill key leadership positions in the firm. By planning for succession, the family agribusiness firm increases the availability of experienced and capable people that are prepared to assume leadership positions as they appear. A leadership development program that deals with leadership succession at all levels in the organization can be a major part of a company's value proposition – one that competitors cannot understand, much less copy – the true essence of a good brand! Talent management, particularly when it comes to leadership and its succession, is an essential ingredient in building the brand.