

SUCCESSFULLY TRANSITIONING THE FAMILY BUSINESS TO THE NEXT GENERATIONS

Sonoma County Winegrowers
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Objectives

Learn how to:

1. Identify and develop the next person to lead the business
2. Effectively communicate the transition plan
3. Build a strong management team
4. Develop a written succession and contingency plan
5. Identify and prepare for the common pitfalls of succession
6. Develop a governance structure to support the succession transition

A. Succession Readiness Overview

Succession readiness prepares individuals and businesses for the successful, orderly transition of leadership and management responsibilities.

To accomplish this, a comprehensive approach to your business, culture, goals and the talents of your team members needs to occur. This is matched to your expectations for the future and potential emerging markets and strategic strategies.

For **your business**, succession readiness means defining and then taking the steps necessary to insure business continuity. Implementation may involve confirming a strategic plan, drafting a contingency plan, identifying leadership needs, strengthening governance and managing risks.

For **your culture**, succession readiness means acknowledging “the ways things work around here” and considering how to prepare for and adapt to the inevitable changes resulting from leadership and management transitions. Implementation may involve organizational restructuring, a planned culture shift, targeted communications and training, review of values, or focused team development.

For **current leaders**, succession readiness means developing a transition plan, reconsidering one’s future role in light of personal goals, evaluating timing, and being flexible. Implementation may involve identifying, evaluating and mentoring successors, receiving coaching, and accepting an evolving role in the business.

For **prospective successors**, succession readiness means cultivating leadership skills and gaining relevant experience. Implementation often involves individual and team development, including mentoring, coaching, progressive career path development, a 360° assessment and systematic feedback.

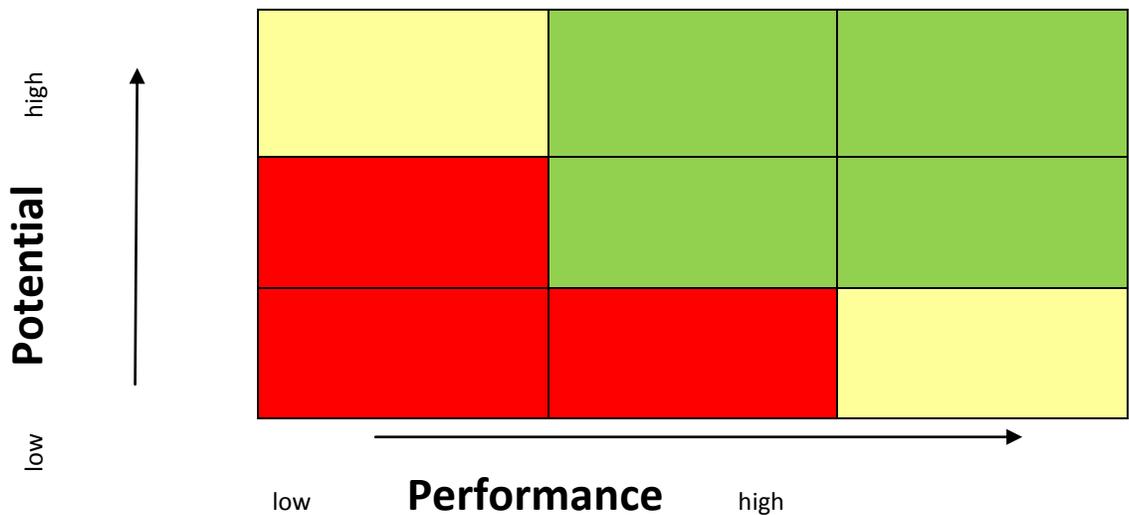
Thoughtful, on-going planning for management succession is a must for long term business success and sustainability.

B. Identifying and Developing Talent

High Potential Identification

High potential identification is dependent on two basic criteria: 1) potential and 2) performance. Potential includes a subjective and objective assessment by managers and peers of the persons' ability to 1) think and act strategically, 2) provide leadership, 3) interact effectively with others and 4) develop their skill level. It also involves an assessment of the diversity and length of experience in different functional areas within the business. Potential in leadership is examined further by discussions around what personal interaction styles that might or have 'derailed' the high potential candidate in the past. Performance assessment is based on formal annual evaluation documentation, productivity and informal feedback from managers and colleagues.

The following chart can be utilized to help quantify and track high potential progress.



Another way to look at it is: 1) potential equals the knowledge, IQ, skills, abilities, experience and education and 2) performance as a combination of written performance reviews, colleague/manager feedback including attitude, work ethic, leadership behaviors and interpersonal skills.

Factors that lead to grid placement are:

1. Past performance
2. Leadership ability
3. Learning agility
4. Advancement potential
5. Advancement desire
6. Competencies
7. Skill sets
8. Derailing factors

Common derailing factors include:

- Not listening
- Making excuses
- Refusing to apologize
- Arrogance
- Procrastinating
- “It’s my way or no way.”
- Blaming others
- Failing to say “thank you”
- Defensiveness
- Taking all of the credit
- Gossiping
- Personal verbal attack
- Negativity & whining
- Dragging in the past
- Criticizing
- Withholding information
- Egocentric
- Demeaning



Exercise 1: Talent Potential Grid

Note: This exercise has a high level of confidentiality because of the discussion of employees and their potential development.

Utilizing the potential/performance grid on the previous page:

1. Identify a few positions that need to have successor candidates ready in the next few years.

2. Place, in the grid, the currently available people for each area (green, red, yellow).
3. Discuss with your small group.

C. Effectively Communicating the Transition Plan

Your successors are tentatively picked and are being developed. How do you let others know? How are managers, employees and family informed of the upcoming changes? Will leadership stay within the family, a non-family trusted employee or someone from the outside? Will it happen this next year or within five years?

Whatever the message, communication skills and timing will be critical.

A Closer Look at Communication

Communication is the transfer of ideas, messages, feelings and information from one person to another. Communication is a complex interchange dependent on the sender and receivers' ability to develop, deliver and accept clear messages. The sender conceives the message they wish to send, sifts through data and emotions to develop the message and then sends the message. The receiver hears or reads the message, analyzes it and clarifies their understanding of the message.

Effective communication skills are essential for success. It is effective when it gets the desired action or response. Building your knowledge about the communication process and increasing your communication skills will serve you well, both personally and professionally.

Communication rests on a foundation of **trust** and **intent**. If these two components are missing or low, skills in communication are ineffective, no matter how skillful you are. If the relationship between individuals is not based on mutual trust and respect, the communication becomes distorted. It is either not believed, partially believed or blocked entirely. I begin to trust you as I see you consistently, over time 'walk your talk'. Also, I need to know that you have my best interest and the interest of the business at heart. Stating your intent at the beginning of a conversation goes a long way in building understanding and setting the stage for a healthy dialogue.

Difficult Conversations



Book Synopsis¹

1. Move from influencing others to learning with others – from forcing your opinion to sharing information and asking questions.
2. Explore not only what is said, but what is not said.
3. Crucial assumption to break – “I’m right, you’re wrong.”
4. Look at the ‘truth’ from all sides, intentions of each person and away from blame to joint ownership of the situation.
5. Talking about fault leads to disagreement, denial and little understanding.
6. Shift our intent from proving we are right to understanding the perceptions, interpretations, feelings and values of both sides.
7. How we interpret what we see is the result of 1) our past experiences and 2) the implicit rules we’ve learned about how things should and should not be done. Own and heal your past; unhealthy regression is not fun for anyone. Make your rules explicit and ask the other person to do the same.
8. Using the word “and” helps us be curious and clear in our conversations. We more commonly use the word “but” instead which negates the second part of the message. I have to reassign you to a shift you have said you didn’t want and I understand this make cause a hardship for a while and I should have done it sooner because the work is piling up on team A.
9. Honestly check your intent and motivation before entering into a conversation – do not assume you know another persons’ intent.
10. Not “Who’s right?, instead “Now that we really understand each other, what’s a good way to manage this problem?”
11. We assume intentions from the impact on us – we often assume the worst leading the other person to defensiveness.
12. Good intentions do not make up for poor message delivery.
13. We frequently underestimate the complexity of human interactions.
14. Looking at all sides of the story is accomplished with a dose of humility, checking your ego at the door and not holding on to the “rightness” of our story. Embrace both stories – develop the collaborative ‘third story’.

¹ Concept from Stone, D., Patton, B., Heen, S. *Difficult Conversations – How to Discuss What Matters Most*, Penguin Books, 1999

The Third Story



There is your story, my story, and ‘the third story’. The ‘third story’ is the description of the situation as would be told by a thoughtful, neutral third party – telling the story that looks at both sides simultaneously and fairly.’

Starting with our story first, often leaves the other person feeling blamed, devalued, attacked and defensive.

Opening lines to conversations are critical to setting the tone. Approaching with “I” statements and owning your perspective, without blame or stating another’s

intention (which we don’t know anyway) is likely to lead to a good dialogue and ultimately a trusting relationship. This is all dependent on consistent behaviors that match what we say.

	Opening Lines That Crash	Opening Lines That Work	Message Behind the Opening Line
1.	If you contest Dad’s will, it’s going to tear the family apart.		You’re selfish, ungrateful, and don’t care about the family.
2.	I was very upset by what you said in front of our supervisor.		At worst, you intentionally betrayed me – at best, you weren’t thinking about your impact on me.
3.	Your son Nathan can be difficult in class – disruptive and argumentative. You’ve said in the past that things at home are fine, but something must be troubling him.		Your son is a troublemaker, probably because you’re a bad parent who’s created a lousy home environment. What are you hiding?
4.	The next leader of the business will be a non-family member, we’re kidding ourselves if we think John can do it.		The unofficially appointed family member, John, is not a potential leader.

One way to reword number 2 above, would be:

I would like to talk to you about what happened in the meeting this morning. I would like to explain how it appeared to me, and to hear your perspective on the situation. Do you have 15 minutes now, or could we set a time for later this week?

Consider:

- A. Question your intentions with your communication – what is the message underneath the words you’re saying? Are you trying to control someone else? Are you interested in their personal and career development?

- B. Focus on moving from blame to owning your part in the situation. Take a curious, learning stance instead of a 'name and blame' stance.
- C. Think through and state your intention.
- D. Work at seeing both sides – their version of events, your version of the events, and finally reach our version of the events (the third story of a neutral observer).



Exercise 2: The Third Story

1. In groups of three to five, reword the opening lines into a 'third story' communication approach of numbers one, three, and four in the previous table.

2. Practice delivering the message within your group. Remember to consider and state your intention, **before** you deliver the message. "I have given this a lot of thought and I sincerely want to see you be successful with the next Board presentation. What I have noticed is"

3. Change roles so that each of you has the chance to practice reaching and delivering "the third story".

D. Building A Strong Management Team

"As for the best leaders, the people do not notice their existence. The next best, the people honor and praise. The next, the people fear; and the next, the people hate. When the best leader's work is done, the people say, 'We did it ourselves.'"

Lao-Tzu Chinese philosopher

Team Description

A team is a small number of people with complementary skills who are committed to a common purpose, performance goals, and approach for which they hold themselves mutually accountable.

Team Skills

- Technical and/or functional expertise
- Problem-solving and decision-making skills
- Interpersonal skills

Team Assessment

1. Is the team size effective for what you are trying to accomplish?
2. Do you have adequate levels of complementary skills and technical knowledge?
3. Do you have a broader, meaningful purpose that all members aspire to?
4. Do you have specific set of performance goals?
5. Is the team tracking goals together?
6. Is the working approach clearly understood and commonly agreed upon?
7. Do you hold yourselves individually and mutually accountable for the groups' results?

E. Developing a Written Succession and Contingency Plan

See Sample Plan in Appendix A.

F. Identifying and Preparing for Common Pitfalls in Succession

Common pitfalls Include:

1. Fearing what might happen and therefore failing to plan
2. Not spending enough time on upfront planning or on defining desired outcomes
3. Once established, the succession plan is not regularly reviewed and changed, as appropriate

4. Not having early and frequent succession conversations with family, the Board, management and employees
5. Lack of understanding that the leader needs to focus concurrently on the business, the family and the shareholders
6. Lack of business sustainability – strategic plan, diversity of product and services, diligent watching and reacting to market trends
7. Poor money management of business and individual family members
8. Lack of a buy-sell agreement
9. Acting as if a family member, as the leader, is the only option
10. Not choosing someone who meets future needs
11. Fostering internal competition
12. Not incorporating talent development and succession into the business culture
13. After benchmarking and talent identification, little emphasis is placed on employee development - lack of leadership development, executive coaching and exposure to the rest of the industry
14. Not balancing respect of the previous generations' contribution with the drive of the next generation to forge their own path
15. Lack of professional governance structure that includes a Board of Directors with external, independent Board members and a forum for the family to meet, i.e. Family Council.



Exercise 3. Pitfall Rating

1. Look at the previous list of 15 pitfalls above and identify **three** that you and your business have succeeded at doing well.
2. Second, identify the **five** pitfalls that you and your business need to work on. Discuss with your small group.

3. What will be the first thing you work on?

Below are questions you can work through with your family, management team and professional advisors. These questions will keep the process of succession in front of everyone. One company I worked started the discipline of reviewing five questions at the beginning of their quarterly Family Council meetings. The questions could also be adjusted for monthly management team meeting discussion.

Preparing The Next Generation

1. How are you increasing the next generation's knowledge of the family business?
2. What value does the family place on education?
3. Does the family financially support the formal education of the next generation?
4. Does the business provide internships or mentoring of the next generation?
5. What is the basic philosophy of money management within the business?
6. What is the families' basic philosophy of money management?
7. Are you and your siblings financially planning for and prepared for retirement?

Building Awareness

1. What top three values do you think we hold as a family?
2. Do we clearly communicate what is happening in the business to non-employee family members?
3. How would you describe our level of financial transparency?
4. How well do we communicate potential career paths to the family?
5. Describe the preparation and selection process you think we go through when choosing the next CEO of the business.
6. What do you think the two main responsibilities of the Board of Directors are?
7. Where are you in the process of planning for the transfer of family wealth for the next generation? (Sometimes commonly known as your estate plan)
8. How understandable and fair do you think the stock purchase agreement is?

9. Have we given you enough liquidity options so you don't feel stuck in ownership of the business?
10. Are most family members interested in maintaining the family business?
11. Would the family consider preparing the business for an eventual sale?
12. Is there a family story you think is significant?
13. Please describe your perception of how effective the Family Council is?
14. How well do you think we get along as family members?
15. Do we have any sibling rivalries that are negatively impacting the business?
16. How or have we addressed family secrets that have threatened the business?
17. Is there anything else you think we should understand or consider as we go through this data gathering process?

G. Governance

Board of Directors

Boards of directors are often underutilized by family business owners. A well-considered Board of Directors can help a family business manage its financial health, while helping the family understand its roles and responsibilities in the business. To this end, consider some of the unique issues that directors face when they serve on the board of a family business.

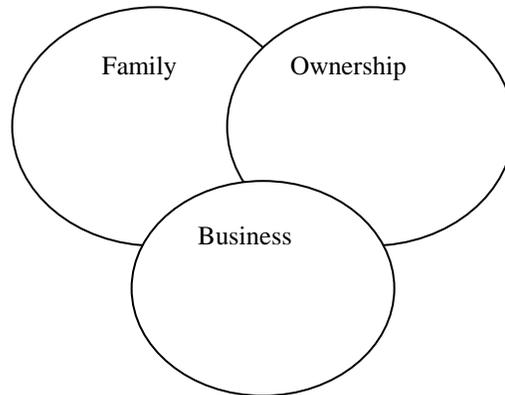
In many family businesses, family members are intimately involved with the day-to-day running of the business. This means the owners, leaders and vision-setters of the business are related to each other. The first difference that a director might notice is that the roles and relationships of people involved in a family business are more complex than in a non-family business.

Shareholders in a family business may have very different concerns than those in a non-family business.

For instance, while the financial health of the business, including the overall return and risk-reward of the business, are important to shareholders of both family and non-family businesses, shareholders in a family business may feel accountable to family members, including some who might not be shareholders. As a result, when it comes to relatives, these shareholders might not be able to make tough decisions about whom to hire and fire.

Further, family members interact with each other more frequently and more intimately than shareholders of non-family businesses. This can make ownership decisions by a family business shareholder more complex.

Because of the sometimes-over-lapping roles of shareholders and family members, directors need to be familiar with how these roles relate to each other.



RESPONSIBILITIES IN THE THREE CIRCLES

- Family -** Personal finance and estate plans: how do we take care of the family and individual family members?
- Business -** Strategic and operational plans: how do we run the business, expand the business and change the business?
- Ownership -** Ownership and successor plans: how do we provide for an orderly transition of ownership that considers family involvement in the business?

That model outlines three over-lapping roles, those of: a family member, a person working in the business, and an owner. Individuals involved with a family business can have responsibilities in one, two, or all three circles. The responsibilities and rights governing each circle are quite different. Confusion and conflict can reign when non-owner family members assume that their rights and responsibilities as family members carry over to ownership issues.

In guiding the family business, directors need to consider the family vision: what does the family, as a whole, want for the business? What do individual family members expect of the business? Is the family business meant to be a legacy for the family, or just a source of revenue?

Finally, directors need to consider how to create dialogue around succession. These are delicate and intensely personal matters for most owners of family businesses.

The owners often don't share their succession plans with family members. Nevertheless, the consequences of succession and estate planning can have a lasting impact on the business itself. Family members may expect that they have a right to be employed in the business or to take over as CEO at some future time. Directors need to encourage the family business to develop succession and business strategic plans that address these issues.

When serving as a director for a family business, the goals for the Board of Directors should be clear. Just as in a non-family business, they need to protect the interest of the shareholders, provide fiduciary oversight, minimize business risk and focus on the big picture for the business. This must be done in the context of recognizing that family members want to be involved. They need to help the family create processes for family member involvement that enhance the business. Thus, the Board of Directors has to establish ways to work with the family's governance structure (Family Council) so that the business and the family support each other's goals.

Exercise 4. Governance Structure



1. Within your small group, describe what your current business structure looks like and how well it is functioning. Here are some questions to discuss with each other:
 - a. How would you describe the current level of functioning of your Board of Directors?
 - b. How is the membership of your Board of Directors determined?
 - c. Do you have non-family, independent Directors?
 - d. How do you prepare for the Annual Shareholder meeting?
 - e. How would you describe the role of your Family Council?

- f. How is membership for the Family Council determined?
- g. What type of authority or direction does the Family Council provide?
- h. How often does the Family Council meet and how is the meeting agenda developed?
- i. How do the CEO, Board of Directors, shareholders and Family Council interact?
- j. What success story can you tell about your governance structure?
- k. What changes would you like to see with your governance structure?

MANAGEMENT SUCCESSION PLAN



ABC Family Vineyards

Prepared by: Lois Lang, Psy.D.



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MANAGEMENT SUCCESSION PROCESS OVERVIEW

Evolve Partner Group was retained to interview ABC Family Vineyards employees, family members, external stakeholders and professional business advisors to assess the talent and business management components that will support a family legacy business transition. Many companies focus exclusively on optimizing the legal, estate, and tax strategies for succession; experienced leaders understand that talent drives a company and is therefore, also a critical component of business succession planning.

Succession planning is a compilation of many different moving parts that need to be established, reviewed and updated. As highlighted in yellow below, this assessment focuses primarily on talent and family transition, secondarily with portions of the business transition.

Wealth Transition	Business Transition	Talent & Family Transition
Business Valuation	Corporate Legal Structure(s)	Executive Team Development
Share Transfer Planning	Corporate Finance	Organizational Culture Management
Buy-Sell / Shareholder Agreement	Risk Management - Life, Disability, Property, and Workmen's Compensation Insurance	Talent Management
Estate Planning	Business Innovation & Diversity	Talent Succession
Personal Financial Planning	Business Strategic Planning	Organizational Structure
Retirement Planning	Board of Director Development	Family Council Development
	Contingency Planning	Family Communication & Education

During the months of January & February 2014, the following people were interviewed: Evan ABC, Monica ABC, Tod ABC, Rhonda ABC Hermann, Eric Hermann, Amelia Murphy, David Giannini (winemaker), Alex Seitter (controller), Anna Thompson (wine broker), Ryan Peirsall (attorney), and James Moore (C.P.A.). There was limited on-site observation.

The following guideline was used for questions during the interviews:

1. Full name, date of birth, birth order and names of siblings
2. Spouse, fiancé or significant other? Date of marriage? Date of divorces? Children and ages?
3. Relationship to owner of the business?
 - A. Relationship in name (father, mother, aunt, etc.)
 - B. What is the quality of the relationship, past and current?
4. How long or have you ever worked in the business? In what capacity?
5. Describe your schooling, work experience, skills and abilities.
6. Describe the business as you understand it – historic and current? What services and/or products does the business do?
7. Where do you think the business will be in the next 5 to 10 years?
8. Describe what you know and understand about the ownership of the business.
9. Do you have a desire to participate in the leadership of the business? If yes, in what role?
10. Describe what you know about the top positions of the business? Who holds these positions? How did they come into the business? Who will succeed them?
11. Describe what you know and understand about the governance (Board of Directors) of the business. Do you think it is working well?
12. Do you have a desire to participate in the governance of the business?
13. Do any of your siblings, their spouses or cousins and their spouses, work in the business now or in the past? What type of job do you think they did? Is everyone fairly treated and compensated?
14. Do you think any of your siblings, their spouses or cousins and their spouses, have a role to play in the management or governance of the business?
15. Do any of your siblings, their spouses or cousins and their spouses, own the business or partially own assets – describe how ownership is divided. What works about this ownership division? What is challenging about the ownership division?
16. Describe the levels of leadership capabilities you think you have, your siblings, cousins and/or in-laws?
17. How do you think the current employees would accept the transition from your father as leader to the next generation?
18. What do you worry about for the future of the business?
19. Would you like to manage and/or govern the business in the future or would you prefer that the family sell the business?
20. Is there openness and trust between family members?
21. Describe how willing you think the current leader is to let go of the business and pass it to the next generation or to a professional management team?
22. What do you expect to receive from the business in compensation, shareholder distribution or ownership?
23. Describe what you know about the estate and tax planning for a transition from one generation to the next?
24. Do you have a buy-sell agreement in place that everyone understands and agrees on?

25. When do you want to retire? Are you financially ready for retirement or will you expect money out of the business?
26. Has the family ever considered selling all or part of the business?
27. What is important to you, to maintain about the business?

ASSESSMENT RESULTS

Interviews

Everyone was open and engaged in helping create a talent plan to support an eventual transition between generations. Family, employees, key stakeholders and advisors are in alignment with the current vision and direction that Evan and Monica provide on a daily basis. The unanimous wish is for Evan to continue with the vision of quality and value, while he drives sales and strategic decisions. While there is a difference of opinion on who should play what role, how and when tasks should transfer from generation one (Evan and Monica) to generation two¹ (Tod, Rhonda and Eric), there is full commitment to considering and supporting what is best for the business and family.

EXECUTIVE TEAM DEVELOPMENT

The current team is strong – Evan, Monica, Eric, David, Tod, and Alex meet every few months to ensure coordination of efforts. These meetings are largely an update of each team members' functional area.

Executive Team Transition Recommendations:

- A. Create a consistent monthly meeting date, i.e. the first Monday morning of each month.
- B. Provide leadership development training for team members in areas, such as, process improvement, change management, decision-making, innovation, communication and delegation.
- C. Migrate from primarily an exchange of information to tracking strategic goals, problem-solving and decision-making.

ORGANIZATIONAL CULTURE MANAGEMENT

Culture develops from the work habits, strengths, weaknesses, beliefs and values of founders. The culture was not thoroughly evaluated but seems to be hard-working, precise, clean, detail oriented and timely. Values of quality, transparency, trust, honesty, openness, respect, and fairness are clear in examples of work place interactions. The phrases “do what is best” and “do what is right” were repeated frequently.

A culture of actively involving and empowering employees in decisions has led to a palpable excitement and pride that drives high performance, loyalty and retention. Evan has high followership – stories of him making strategic decisions for replanting blocks of vineyard, knowing when to sell, when to deal, partner, and change are repeated by both family and employees.

Organizational Culture Transition Recommendations:

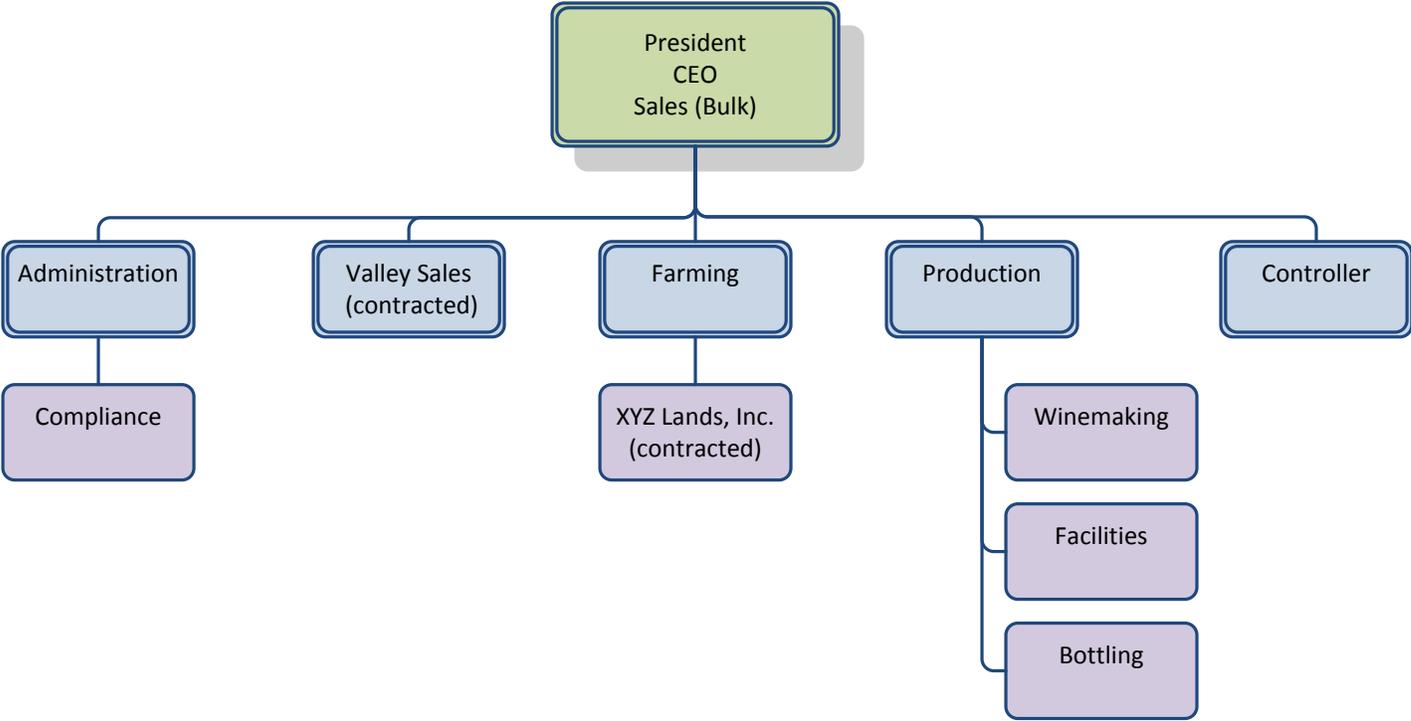
- A. Consider ways to ensure that your current strong culture continues to the next generation of employees and family, i.e. written values used for new employee orientation and in employee handbook
- B. Consider how the culture will need to evolve as you expand to a different location.

ORGANIZATIONAL STRUCTURE ANALYSIS

Organizational Structure Overview

There is no written organization chart, yet everyone is clear about who they report to. While the final decision is Evan’s, each person knows they are to independently and collectively work for the good of the customer and business. Eric Hermann along with a farming contractor, Glenn Moreno - XYZ Lands, Inc., oversee farming; David Giannini oversees wine production; Tod oversees facilities, inventory, and supports wine production and bottling; Monica oversees compliance and supports consumer sales; Rhonda is administrative, finance and compliance support; Alex Seitter oversees the finance function; Evan oversees business strategy and sales with support from Jacob Hawley (national consumer sales & distribution) and Anna Thompson, Grape Broker – Smith Brokerage. There are approximately 40 to 55 full-time, year round employees, with fluctuations up to 80 during harvest and 35 when bottling.

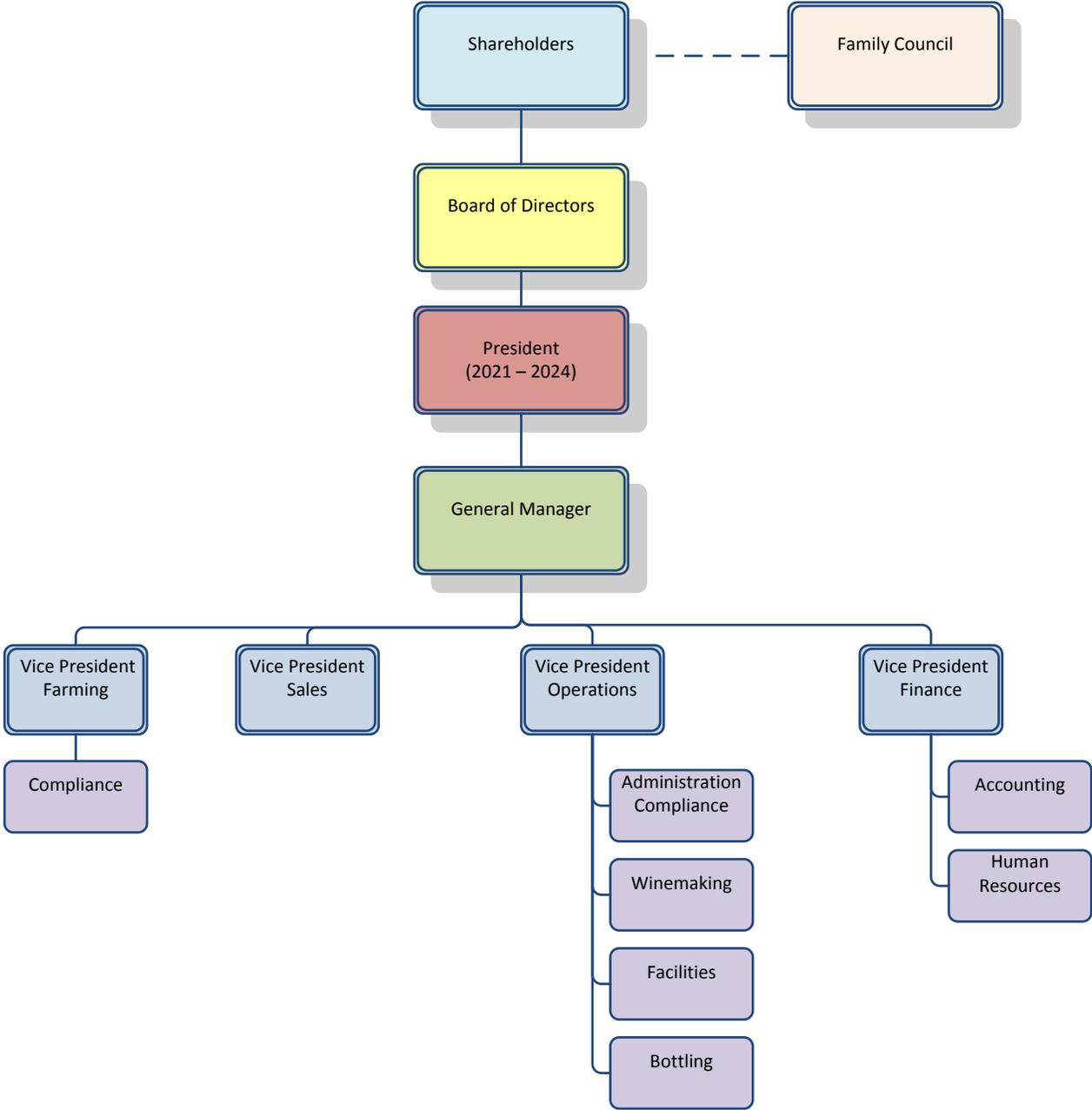
The current organizational structure is:



Future Organizational Structure

Eventually, a non-family, well-seasoned General Manager could be a healthy solution for legacy and business sustainability, if the third generation does not show the aptitude or desire to lead. Both Tod and Rhonda are fulfilling current roles that they are talented at and these roles will only become more complex as the winery continues to grow. Similarly, Eric has a passion for farming that will expand to a point that potentially excludes the need for outside contracted assistance. As Monica prepares to retire with Evan, her compliance role will need to either transition to Rhonda, another identified employee and/or external contractor.

The organizational structure, by 2024, might look like:



Organizational Structure Transition Recommendations:

- A. Develop and distribute a current organizational chart.

TALENT MANAGEMENT

Performance Management

Employees noted that they are clear about what is expected of them, who they need to report to and who to work with to remove roadblocks. Performance evaluations are noted as fair and are to be administered annually. The evaluations happen on a consistent basis and are matched to merit increases based on individual and company results.

Employee Rewards & Recognition

It was noted, by everyone, that compensation is generous, fair, and competitive. Several mentioned their appreciation at being able to participate in the profit sharing plan for key employees, the 401(k), and health benefits. Repeatedly, the informal recognition received for a job well done was mentioned. Employees are loyal and highly engaged, in part, because their input is regularly sought out and valued.

Talent Management Transition Recommendations:

- A. Utilize an objective, external source, every three years, to ensure that salaries and benefit packages remain competitive.
- B. Create and annually review your compensation philosophy that answers the % range (25%, median, 75%) you aim for and keep it consistent throughout the business.
- C. Commit to a performance evaluation system that works for your business – this is consistently occurring now, so you can simply continue to support it.
- D. Question if there is a need to ensure further loyalty with formal employment agreements with key employees.

TALENT SUCCESSION

Current Talent Assessment

ABC Vineyards has assembled and supported a skilled, efficient team of individuals who are highly engaged in the pursuit of consistent, quality wine production. They work well by following Evan's lead, involving each other in decisions, being transparent and focused on product development that matches market demands. Creativity, innovation and hard work are emphasized, not by rhetoric, but action.

Evan is contemplating a gradual transition from his role as leader; now sitting at age 52, he anticipates being out of the day-to-day operations in thirteen years. It is highly unlikely that Evan's role will move forward as one position – finding someone to lead company vision, strategy and innovation, as well as consistently drive wholesale growth would be a tall order. It is more likely that there will be two positions (General Manager/President and Vice President of Sales). While it is too early to say who these people will be or if it will be a family member, family members should be exposed to and mentored by Evan to determine interest and ability in both the leadership and sales role.

While thirteen years can show considerable changes in both individual employee development and desire, along with business growth, Eric and/or an external candidate are most likely positioned to lead the organization. Eric brings the passion, drive, farming experience and family connection to the leadership position. He is working at building his capacity to bring all of the farm operations inside the company. While there is respect of what their parents built, a desire to work in the business and a passion to ensure that the ABC family name continues to stand for the quality and value it does today. Rhonda and Tod respect and honor the work that their father has done. Tod is deeply committed and connected to all phases of wine production from winemaking, inventory control, bottling, equipment maintenance and facility management. Rhonda is currently supporting and learning the complex and ever-changing function of compliance from Monica, as well as assisting in other administrative functions. As Rhonda explores different functions within the company and interests in personal life, she will discover where, or if, she wants to work in the family business. Her role may later transition to governance oversight (a seat on the Board of Directors and/or Family Council) if she is not actively involved in the day-to-day operations.

There were frequent conversations about the wisdom of Paul, Evan's father, dividing the farm between Evan and his brother, Steve. While this worked well for that generation transfer, this same type of separation would not be advisable for ABC Winery – the strength of field to table production beg for a collaborative work environment for generation two (Tod, Rhonda, Eric) to be successful.

Both David (winemaker) and Alex (controller) are poised to continue with the anticipated future growth of the company, from an age, desire and experience standpoint.

There are heavily involved professional advisors and outside contractors are an integral part of most business succession plans. Your current advisors are proactive from a succession standpoint with good internal bench strength and succession strategies that will carry the family to and through the next generation. Eventually, an assessment of the national sales position will need to occur.

Finally, while the tight number of employees decreases overhead, it also creates a potential business risk. Each position should be looked at with consideration for expansion, in the near future, and/or cross training to ensure business continuity.

Talent Succession Transition Recommendations:

- A. Evan to develop a written list of competencies that he uses in his role as leader and sales. This list will provide a road map for his mentoring of those poised to assume the leadership and sales role that he will gradually release by 2026 or 2027.
- B. Monica to develop a written list of competencies for the jobs she covers for the winery and her plan to transition those with timelines for gradual succession similar to Evan's.
- C. Create a written talent development/mentoring plan for Eric that includes an expanding decision-making role in farming, learning the wholesale function, and leadership skill development. This plan will include skill competencies he holds, and needs to learn with a specific timeline. For example, how much land does Eric currently manage, when will he manage more directly (year, acreage) and what will he need to know to do that? The plan should include stretch assignments, and a plan for both external and internal mentoring.
- D. Expose Rhonda and Tod to functional areas they wish to try and evaluate their individual 'fit' to different positions. Develop a written plan for their knowledge, skill and experience development within the business. How many of the compliance functions does Rhonda know how to do independently, what else does she need to learn and by when? What portions of facility management and winemaking does Tod still need to understand – what part is formal vs. informal mentoring that David can cover?
- E. Provide executive coaching for Eric and Tod for three to six months to include a 360° assessment by his co-workers.
- F. Create job descriptions for each current position and anticipated position expansion within the next 18 months.

- G. Ensure a succession plan for farming (XYZ Lands – Glenn to his sons) and grape brokerage with Anna at Smith.
- H. Determine when, or if, the national sales function should move from a contracted to internal position.
- I. Annually review all advisors and contractor’s succession plans and capabilities to determine their match to ABC Vineyard needs.

BUSINESS STRATEGIC PLANNING

The strategic plan for business sustainability is in continuous movement with Evan as the lead. Employees are clear about the direction and the role they fill to ensure the company continues to prosper and grow. Evan has some general growth plan penciled out; a plan that is open for revision as opportunities and challenges arise. A strength of leadership and the company is their openness to outside influences and use of quality external talent and information.

Business Strategic Planning Transition Recommendations:

- A. Develop a written three year strategic business plan to guide employee involvement and decisions. This plan can be a simple lay-out of anticipated growth, knowing that opportunities, setbacks and market desires will most likely trigger frequent adjustments. Evan has a thorough written plan with projections for growth that is prepared for the bank by himself and the CPA – this includes a vineyard removal, plant plan and sales projections.

GOVERNANCE

Board of Director Development

The current Board of Directors works well for the needs of the business – an annual meeting that involves both family (Evan, Monica, Tod, Rhonda, Eric) and professional advisors (Ryan Peirsall and James Moore) to gain an overview of company and estate planning status. As the business grows,

meeting members, focus, and frequency will need to change to provide a different level of governance.

Family Council

Family Councils are formed to discuss and decide on issues where family and business overlap such as: employment of family members; ownership by family members; shareholder responsibilities; and valuation of shares. A written description of the family's position on these issues is generally kept as a Family Charter or Constitution. Since the family business affects all members of the family, even if they do not work in it, it is frequently an important part of succession somewhere between the second and third generation. The Council provides a place for family members to learn about the business and interact with the business in a professional way that doesn't impede business decisions. The Council contributes to family harmony and prepares the next generation for responsible ownership and leadership. Duties of the Family Council include:

- Acting as the primary link between family, Board and executive management team
- Determining family member roles in business & development opportunities for the next generation
- Establishing family policies such as family employment, compensation, and shareholding policies
- Weighing in on the succession of the General Manager/President and other key executives
- Drafting, revising and recording the family position on its history, vision, mission, and values
- Understanding and promoting coordinated financial and estate planning
- Handling family investments including diversification and charitable giving

Governance Transition Recommendations:

- A. Within three to five years, transition Board of Directors (BOD) from an annual family meeting format with professional advisors to a more traditional BOD with at least two independent industry experts and quarterly meetings. One of these experts may fulfill more of a functional role need, such as marketing, as well as industry expertise.
- B. Within five to eight years, form a Family Council to address the transition to the next generation, to develop family guidelines in respect to the families interface with the

- business, confidentiality, wealth transition, family member employment and to eventually educate the next generation (G3) about the business.
- C. Both at Family Council and Board of Director level - Take one or two concepts, per meeting, and provide a thorough training around it with pre-reading materials, clear description (written & verbal) during the meeting, and time held for interactive exercises & questions around the concept. Examples of areas to cover: company debt ratios, ROI, trusts, pluses and minuses of different legal structures, step-up in basis, etc.

SUMMARY

The talent and family portion of succession is primarily about being human – planning for retirement, acknowledging the potential for serious injury or illness and our mortality. It is about our value as defined by our life work and relationships. It examines our work groups that we become close to – frequently spending more wake time with co-workers than we do with our family. For family businesses, the ante is upped by working and living with family members on a daily basis. At work we are confronted with our weaknesses, pushed to see into the future, try on new ideas, fail and get back up, slug forward and persevere. Therefore, this planning is the deeply emotional side of succession. It is arguably easier to understand than financial planning, estate planning and tax strategy planning, but we commonly avoid it. It is not done less because it isn't considered – it is done less because it takes courage to look at, reflect on and act. If the recommendations are carefully considered and followed, it will strengthen both the business and the family, increasing the likelihood of building and passing a business that will serve all well.

CONTINGENCY PLAN

Management and leadership succession is generally structured with an orderly transition from one person to the next in a time period of eighteen months to five years, depending on the complexity of the role transition and capability of incoming talent. In the advent of a sudden, unexpected transition, the following table will serve as the business’ contingency plan. This plan will be reviewed, at a minimum, on an annual basis.

	Current Person	Role	Acting Interim Person	Contact Information	Comments
1.	Evan ABC	CEO Strategy Sales	Anna Thompson		
2.	Monica ABC	Compliance Administration Consumer Sales (see #5)	Rhonda Hermann Ship Compliant Maria Soto		
3.	David Giannini	Winemaker	Contractor Evan ABC		
4.	Alex Seitter	Controller IT	James Moore (accounting) Monica ABC (IT)		
5.	Jacob Hawley	Consumer Sales & Distribution	Monica ABC		
6.	Eric Hermann	Farming Operations	XYZ Lands, Inc. – Ernie Evan ABC		

The acting interim person will:

1. Before a contingency plan needs to be implemented, ensure that the designated “acting interims” know who they will be covering, understand how to get access to e-mail & voice mail (passwords), know the department and personnel and critical functions to support.
2. When a position is suddenly open, the acting interim will temporarily delegate their current functional area to someone in their department, reviewing critical actions for them to cover.
3. Stabilize the functional area(s) they will be covering because of the sudden change – reviewing paperwork, policies and procedures, known deadlines, reviewing e-mail and voice mail, gathering and talking to co-workers in that area and identifying key internal and external people.
4. Meet with key internal and external key people to ensure a smooth transition, decrease business risk and decrease anxiety.
5. Throughout this process, key external advisors and stakeholders should be included – helping them understand who and how all functional areas are being covered, getting advice from professionals and circling back around to show progress.
6. Decide on and lead a short and long-term plan for talent replacement, as appropriate.
7. Ensure that all involved staff understands who is leading, how it will affect their job and how they can assist. If it is the CEO – a meeting of all staff within 24 hours is crucial and a repeat weekly meeting for a few weeks to ensure the message is being received.
8. Communication is key – explain what is happening and how things are being covered frequently as the transition unfolds. Communicate with different modes – written and verbal – a calm presence and tone focused on pulling together and problem-solving will ease the crisis and protect the business. A forum, for employees, to pose questions should be established.
9. If the contingency is enacted because of the death of a beloved leader or longtime employee, understand and prepare for professional support for employee grief.

Contingency Plan Recommendation:

- A. As Eric increases his role in leadership, consider always having Evan and Eric travel separately; all members of the leadership team should use caution about traveling together.

Other thoughts to coordinate with professional advisors:

1. Buy-sell agreements as shares transfer to next generation.
2. Pre- and post-nuptial requirement for generation two.
3. Review of all legal structures with the next generation to increase understanding.