Enterprising Rural Families™

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TIP OF THE MONTH:

MARKET RESEARCH QUESTIONS

- What industry are you in and how has the industry developed? What are its growth patterns?
- How do firms operate within the industry? What is their mode of business?
- What is the average size of a business in gross sales, employees, capital, sales costs, profit margin?
- What is the average size of the community for your type of business?
- What are the current trends of your industry? What is the size of market?
- What trends are predicted? What impact will technology have?
- How do your products & services fit?
- What specific products & services will your business offer?
- What is your customer profile—gender, age, income, occupation, location, family status, children, education, ethnic origin.

FAMILY BUSINESS LANDMINES AND TIPS FOR AVOIDING THEM

by Lorne Owen and Judy Carter

Running a family farm is challenging. You eat, sleep and work together. Tough business decisions must be made. Sometimes, what is best for the business is not always best for family members. Separating business from family matters is one of the toughest challenges facing farm families today. It is also one of the most important tasks farm families must accomplish, especially if they want the farm to endure.

The landmines farm families must watch out for fall into the 14 universal categories discussed below:

1. Role Confusion

We have all heard the old adage that it is unwise to mix business with pleasure. This advice is especially worth heeding when you are running a family farm. You cannot afford to let emotion cloud business decisions or vice versa. You must separate business issues from family matters. You cannot, for example, hire somebody just because they are a relative. They must be qualified. You cannot give your son a raise just because his wife quit work and they have had a baby. Remuneration must be based on performance and responsibility, not need.

Family members must be conscious of the fact that they all wear two different hats and must be prepared to switch them as required. As a manager, for example, you might need to fire your son because he is not doing his job. As his father, however, you can offer all the sympathy and support you want.

2. Not Having a Succession Plan

If a farmer does not have a will or succession plan he can hardly expect the transition to go smoothly. Dying without a will forces family members to make major decisions at a time when their thinking is clouded by their grief. If a farmer has not named a successor, bereaved family members must pick someone. Often, that person is not prepared or qualified.

If a farmer wants his farm to endure and flourish, he must purposefully groom a successor while he is still alive. He must teach his successor all the things they will need to know to run the farm profitably and pass it on to the next generation.

3. Not Communicating the Plan to All Family Members

Children need to know what their parents plan to do so they can plan their own lives. Many farmers fail to tell their children, who they want to take over, when they plan to hand the reins of power over or when they plan to retire. These farmers are often dumfounded, even crest-fallen, when the son or daughter they dreamed would take over the family farm leaves.

Most prospective successors, by definition, are ambitious and eager to make their mark on the world. Waiting and wondering what is going to happen is too frustrating to endure. Children need to know their contribution is valued and that there is a reason for them to stay around.

4. Making Children Feel They Are Obligated to Stay

Never, never should a child feel he or she must stay and look after Mom and Dad or the farm. Instead, children should be encouraged to go see some of the world, get an education and work for somebody else for a few years. Children who get out on their own come back with a much stronger sense of themselves and with vital, fresh, new ideas. Ideally, children should make a conscious decision that they want to come home and get involved in the family farm. A child who ends up taking over the family farm by default will likely be seriously handicapped by yearnings and regrets.

Parents should formally invite their children into the business. They should also tell the child what their plans are. They should draw up a formal business agreement spelling out what the child can expect, how the transition will unfold, and when the parents plan to quit farming.

5. Not Giving Children Responsibility

Everybody needs a real job. This is perhaps doubly important if you are the boss' son or daughter. Being given a made-up job only undermines a child's self-esteem. Young adults need a chance to prove themselves. It is a good idea to give successors-in-training responsibility for a certain department or division of the operation.

As children demonstrate their ability, they should be given more and more responsibility, so that eventually they are running the farm. It is also a good idea to let children go out and find new opportunities for the business. Have them do the research and report back. Getting them to submit and defend a plan to modernize, diversify or expand the business teaches them the skills they will need to prepare a business plan and secure financing.

Encouraging children to shoulder responsibility gives them a chance to prove themselves. It also brings new ideas into the business and begins the process of renewal that is essential to the business' long term prosperity.

6. Not Letting Children Make Mistakes

You can tell a teenager not to drink or drive too fast. But it seems most of them have to suffer a few hangovers and get a speeding ticket or two before they learn the lesson for themselves. The same is true when it comes to children taking over your farm. You can talk until you are blue in the face but they may need to figure things out for themselves before they really learn.

It is wisest to let them try things, make their mistakes, and learn from them while you are still around. That way, you can help them see what went wrong, why, and talk about what they should do in the future to avoid the same outcome. You can also make sure they do not jeopardize the farm's future unnecessarily. If you do not let your successors-to-be make their mistakes while you are still around, they will have to do it after you are gone. And that could prove disastrous.

Owners of some 50,000 firms will be planning to sell by 2009. Most of those that are sold will be purchased by strangers since only approximately 10% normally remain within the same family's ownership for more than two generations.

Many of today's maturing generation of children are commonly not interested in continuing family ownership of their business. Others often lack adequate financial resources to acquire an existing family firm. Both situations occur regularly in today's production agriculture.

Considering the current, smaller population within the nation's "generation X," today's business owners may actually be forced either to reduce desired prices for their businesses or continue operating them longer than desired.

The Ferguson AgReport

7. Not Giving Children Authority

Along with responsibility should come authority. It is only fair. If you give a child responsibility for a division of your operation, you should also give him or her authority to make seeding and harvesting, breeding and feeding, marketing, personnel, and financial decisions—without first needing to get your approval. If you give a child permission to modernize, diversify or expand the business, you should also give her purchasing, hiring, and signing authority so that she can do the job and assert her independence.

Saddling a child with a lot of responsibility but not giving her proportionate authority can engender feelings of frustration, humiliation and bitterness. More than one successor-in-training, tired of being treated like a child, has left mid-way through the succession process.

8. Using Money for the Wrong Reasons

The reason for being in business is to make money. Yet money can cause no end of trouble if it is used inappropriately. In family businesses, money is often used to keep people happy, resolve emotional issues, or smooth-over hurt feelings. Some farmers use it to "help" children who cannot get their life in order. Others use it to control or manipulate their children. Deciding how much to pay children who work on the farm is difficult. You neither want to pay them too much or too little. If more than one child works on the farm, many farmers feel they must treat everyone equally, but that may not be fair.

The solution is to develop objective criteria upon which to base pay rates. The easiest, fairest solution is to find out what the going rate is for the type of work a child is doing and pay him/her that wage. Two final financial management practices that get many farm families into trouble are making decisions for tax savings reasons instead of good business management reasons and not separating the business' finances from family's finances.

9. Not Involving Family Members in Planning and Decision-making

Family members should have some say in plans for the business. After all, it is their future you are planning. Family meetings offer a forum for people to get together, share their ideas and concerns, plan the future of the operation, and discuss differences of opinion in a safe environment.

Ideally, meetings should be regular and semi-formal. That way, people know what to expect. They know there will be an opportunity for them to voice their concerns. If the meeting is somewhat formal, there is less chance of the discussion degenerating into a shouting match. Notes should be taken, recording goals and who undertook responsibility for what. This increases the chances of things getting done and goals being realized.

10. Not Addressing Problems

Many farm families have an unspoken "no talk" rule. Problems and feelings are not discussed. They are ignored, denied or buried. Sometimes this is done out of fear. To broach a problem would be to admit failure or a weakness. Sometimes bringing concerns up seems pointless; there is never enough time or money to address the problem anyway. The trouble with sweeping problems and feelings under the carpet is that pretty soon the carpet gets so lumpy it is dangerous. Sooner or later, somebody trips and falls. Their fall can have devastating consequences.

Problems which are not addressed do not go away. They go underground. They fester. They come out in other ways. They grow out of proportion. When they finally do come out into the open they are so large, complex and intertwined with other issues they can seem impossible to solve. Sometimes their disclosure is explosive and causes irreparable damage. Unattended underlying issues can seriously derail any plans for succession and may even threaten the continuity of the farm.

11. Not Sharing Information and Communicating Openly

Farmers are renowned for playing their cards close to their chest. That is understandable. They have built their own business, often against tough odds. They are not team players. They are rugged individualists.

If, however, a farmer hopes to pass his farm on to the next generation he must show his intended successor the ropes. That means opening up the books. It means encouraging participation, sharing planning and decision-making responsibilities. It means accepting criticism and being receptive and willing to change. It means giving the successor-in-training more and more authority. It means giving up control.

12. Not Letting Go

Letting go is one of the hardest things a farmer will ever do. Some say it is the "ultimate management challenge" a farmer faces. Letting go of the reins of power means a farmer must let go of his self-concept. It means he must create a whole new identity and life for himself.

Hard as it is, letting go is essential to the ultimate survival of the business. If a farmer cannot let go, his successor will not be able to re-shape the business so it can compete in the marketplace of the future.

13. Treating Each Other Rudely

Farming is hard. You eat, sleep and work together. The constant contact alone is enough to strain family relations. Add to this the time and money constraints most farm families are under and you have a pressure cooker ready to explode. When things go wrong, people tend to blow up at whoever is handy. That is usually their spouse or children.

One of the greatest tragedies of contemporary agriculture is that farm family members often end up treating each other worse than they would treat an employee who stole from them, a manufacturer whose faulty equipment killed their livestock or crop, or a customer who skipped the country without paying for the goods he bought. The lack of respect, politeness, compassion and consideration can seriously undermine efforts to create a prosperous business and pass it on to the next generation.

> **"B**ecause he cannot take it with him, the founder must eventually begin the complex task of *giving it all away*. And he must do it in such a way as to generate acceptance among his family that what he has done is "fair." The agreement of his family on his concept of fairness is essential to the well-being of all."
>
> *Inside the Family Business*

14. Taking Each Other for Granted

While it is vitally important to run your business like a business, it is equally important to keep in perspective why you are in business. The reason you are farming is because you want to provide a certain quality of life for your loved ones. Never lose sight of that. At the end of the day, leave business problems behind.

Enjoy your family. They are more precious than any amount of wealth. If you reach an impasse, if the needs of your family conflict with goals of the business, remember that you can buy new livestock, grow another crop, replace machinery, or negotiate a new contract. You can even buy another farm. But you cannot buy another family.

(Communication techniques and problem solving in family businesses are covered in greater detail in the **Enterprising Rural Families: Making It Work™** on-line course.) Edited by: John P. Hewlett, UW Ranch/Farm Management Specialist.

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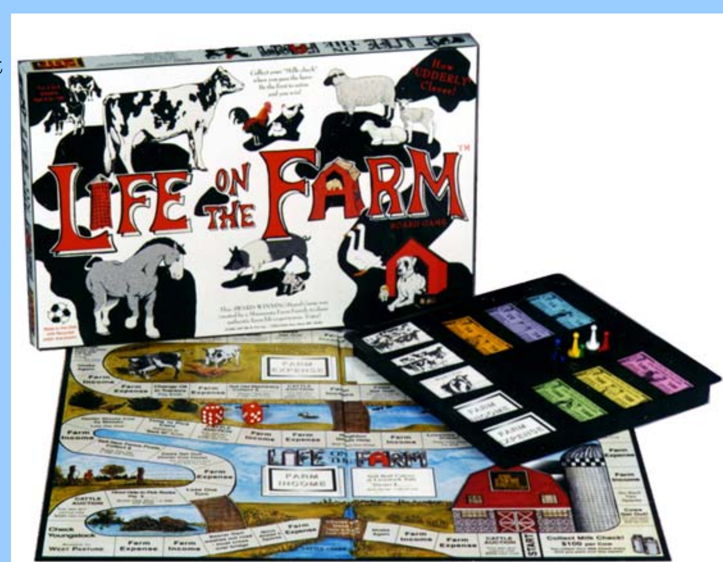
AVOIDING FAMILY BUSINESS LANDMINES

1. Define role responsibilities
2. Have a succession plan - be sure they want to inherit
3. Have open communication with all family members
4. Do not make children feel they MUST stay
5. Give responsibilities to those who will inherit
6. Let children make their own mistakes
7. Give children appropriate authority
8. Practice financial management with entire family
9. Involve family in planning and decision making
10. Face and discuss all problems
11. Share business information - communicate
12. "Let-go" at a predetermined time - don't "hang-on"
13. Consideration for one another is key to success
14. Never take each other for granted - enjoy your work and your family



The family farm/ranch is no game … plan wisely.