AG PROGRESS
Moving family business forward

FARM FAMILY DYNAMICS
WORKING WITH THOSE YOU LOVE

Women Managing the Farm

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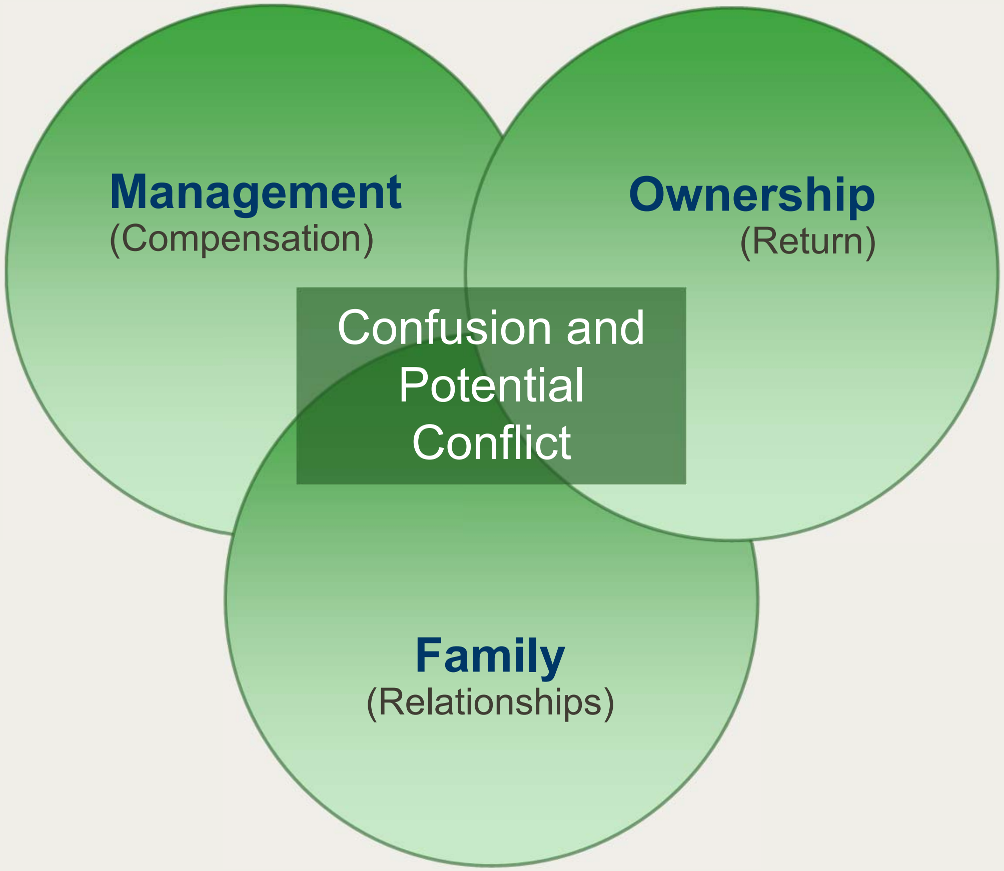
The Three Circle System in a closely held business

HR, Finance, Agronomy, Purchasing, Legal, Public Relations, Risk Mgmt.



Shareholder, Partner, Heir, Investor, Director

Son, Daughter, Sibling, Parent, Lifelong Friend

Three systems have different values and logic

Family

Mutual cooperation, loyalty, unity, permanence, stability

= Relationship

Management

Competition, less loyalty, rewards based on profit and performance, impermanent, task-oriented

= Performance

Ownership

Financial metrics like ROE, liquidity, dividends, access to capital, risk-oriented

= Building and/or transitioning wealth

Another View of the Family Business System

Family	Business
Emotional	Rational
Inward looking	Outward looking
Kinship based	Merit based
Generational authority	Positional authority
Develop individual	Develop products
Transfer values	Transfer Profits

Family Business Lifecycle

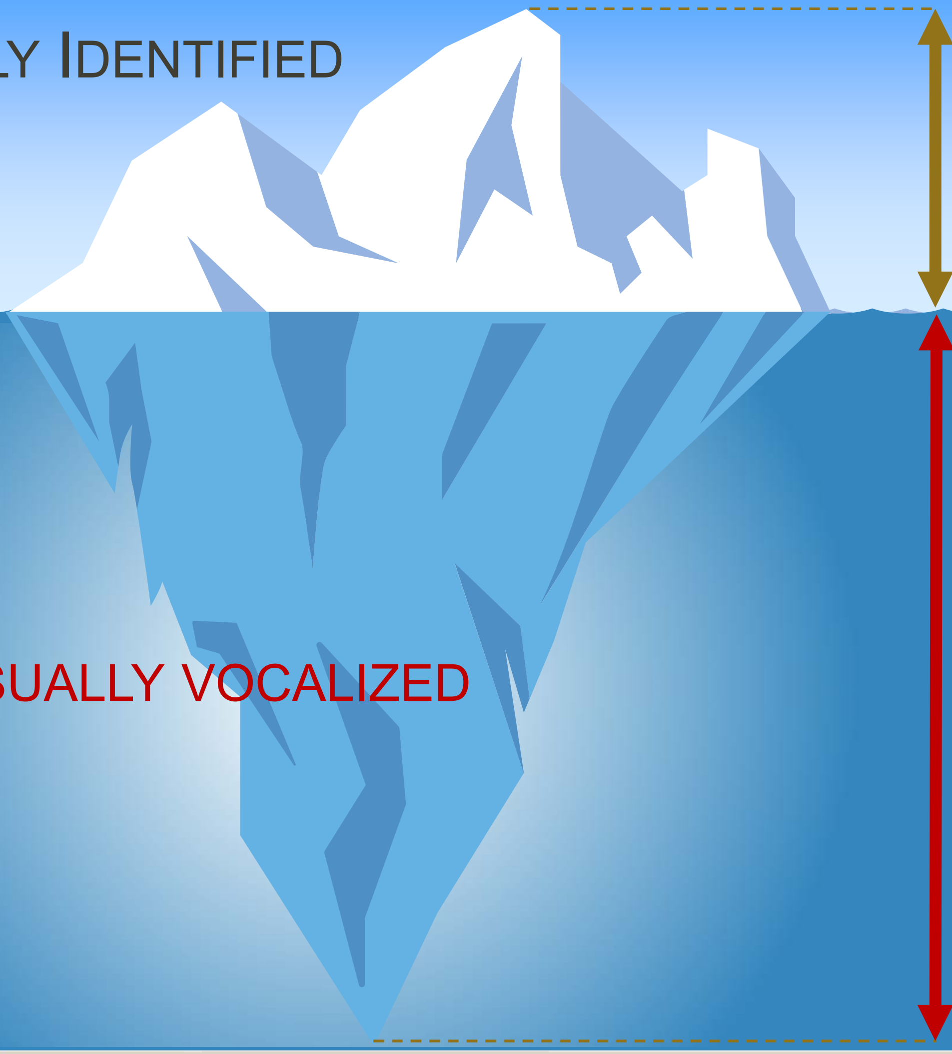
What stage is your family business in or between?

When does conflict appear?

- Periods of significant growth or decline
- During changes in production methods, technology etc.
- During management or ownership transitions (changes in roles)
- During financial struggle – or financial success
- When there is general uncertainty, or a lack of clarity about the future
- When expectations do not match reality

Letting go: Exit Concerns

Usually Identified



Financial Security: Is there enough money?

Preparation: Is the next group ready to lead?

Not usually vocalized

Need: can the business survive without me?

Family glue: will they hold it together?

Identity: Who am I and what will I do after leaving?

Letting Go: The Transition

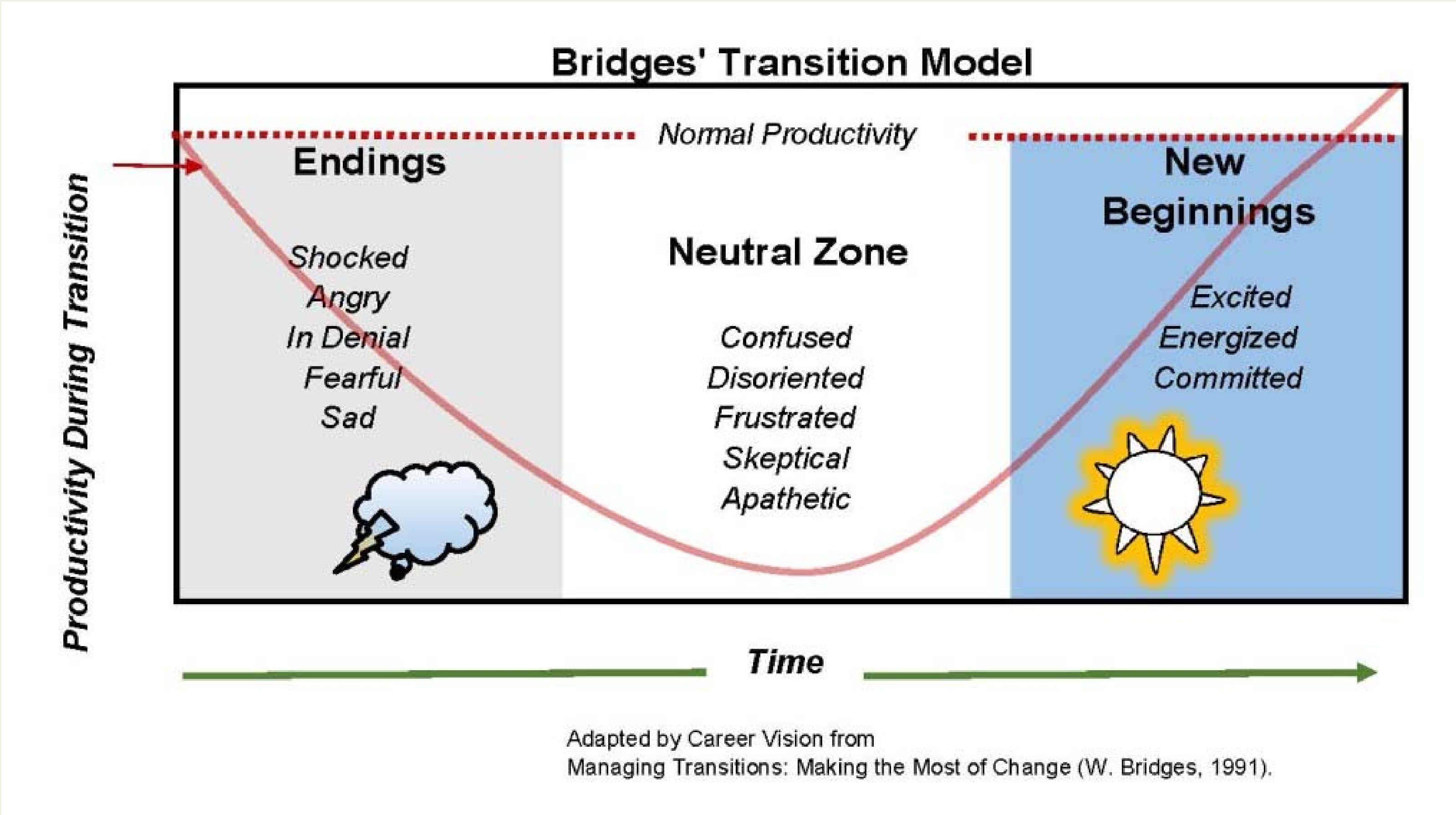
Business change is situational, and often easier.

- Adoption of a new system
- New equipment
- New land
- New farming practices

But **role transition is psychological**, and often harder.

- Involves not just doing, but **feelings** about what you do
- Touches one's vocation (calling) and thus their **identity and value.**
- Happens in close proximity to one's **history** and **community**, making it particularly difficult.

Letting Go: The Transition Model



Key Risk Areas to Family Business Relationships

1. Differences and/or uncertainty in the future direction of the business.
2. Unexpressed expectations of family members and business partners.
3. Compensation philosophy differences among family members.
4. Lack of clarity and discussion regarding future transitions.
5. Lack of understanding about business or structure and big picture “flow” of money; lack of consensus around business performance issues.
6. Inadequate sources for retirement funding so transitions are feasible (lack of planning).
7. Lack of a family entrance policy.
8. No strategy for dealing with unexpected – or planned – departures (buy-sell).
9. Unexpressed frustration/concern with income tax or inheritance philosophy.
10. Lack of regular communication/assumption-based activity.

Assumptions

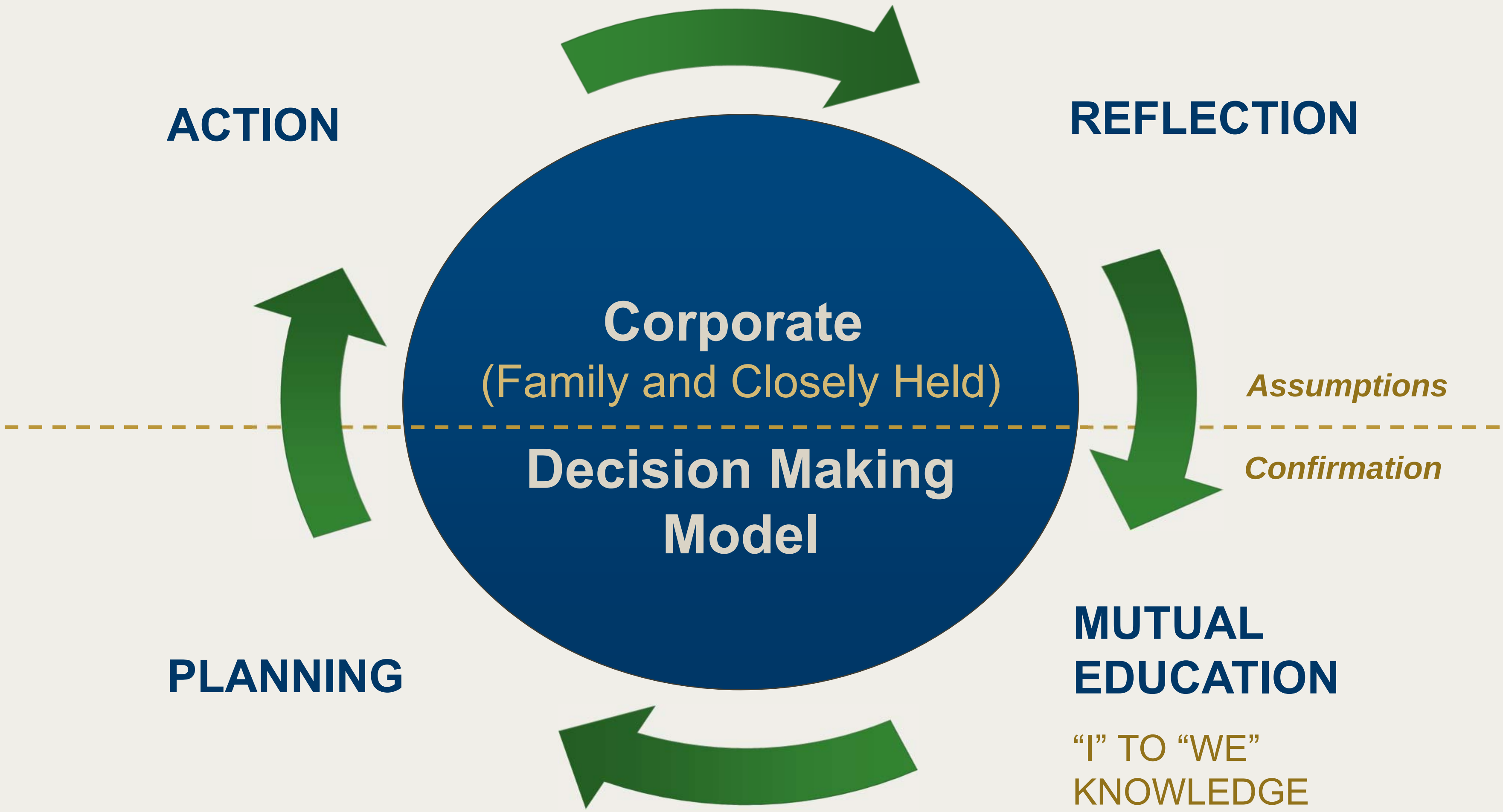
- We sometimes believe that someone is too fragile to discuss sensitive issues. (Not telling them is best for them.)
- We think communicating will make things worse. (Better to fear conflict than experience it!)
- We think our feelings about something will go away. (This too shall pass…although the opposite happens. It builds then blows!)
- We think they should "obviously" understand our actions. (We forget that others in the business were not brought up with our experiences or relational and communication styles.)
- We think they already know what we know, or that what should happen is straightforward.

What might you be assuming about how other people will act or handle tough issues?

Managing Family Relationship Risk
How to work with our family members

- Remember to listen – we often take for granted to voices closest to us.
- Assess the key stakeholders: Roles, Values, Power, Concerns. Who needs to be involved at what level, and what are their positions and concerns?
- Keep some focus on *business planning*: future focused & framed more objectively
  - **Vision** for the business and the family
  - Specific **goals** and **strategies** for the business
  - Each person's potential **role** over the next few years (incl. entrance/exit)
  - **Expectations** about **changes** that may occur
  - Regularly **revisiting** business performance and the plan
- As a group, create a list of key responsibilities/organizational chart – forces a discussion about expectations.
- Determine functional areas for gradual transitions of control: timeline, percentages.
- Clarify what you expect - particularly around knowledge, skills and results.
- Encourage emotional intelligence: awareness of self and impact on others.
- Seek out and encourage experiences (formal education, workshops, training) to learn & interact with peers. Create a forum to discuss the results of your learning.

Planning as a process, not an event



Healthy family businesses have healthy processes

Communication: input, feedback, discussion, & healthy conflict

Key people with development plans & self-awareness of individual impact – play to strengths

- Emotional intelligence

Understanding of other businesses & management strategies

- Continuing ed investment

Expectations of one another and of business performance clearly articulated.

Processes to attract, develop & retain good people

- Job descriptions
- Evaluation & feedback
- Family employment policy

Commitment to work through conflict & agreements / processes to help

- e.g. buy-sell agreements

Agreement on vision, goals, roles & strategy: Are we aligned?

Accepted and respected decision making processes

Understanding of financial information, performance & drivers

Recognize the value of being a family business…but act as if you are not one!

What caused the families to want to end their partnerships?

- Different vision and goals
- Different management styles and expectations/practices
- Poor financial performance (or lack of agreement on financial expectations)
- Growing disconnect between business enterprises (livestock/crops)
- Discomfort/lack of trust of current or next generation
- The “last person standing” is in sight! (No one returning.)

What can we learn from their reasons for splitting up? What makes us stronger?

Take the time to talk about what you want to accomplish in the future.

- Do you want a bigger farm than you have today? How big? At what rate? Clarify your approach to opportunities.
- How leading edge do you want to be? Talk about the cost of the approach.
- How professional? Talk about the level of structure, processes, bureaucracy you want.
- What are your profitability/financial/leverage expectations? Define “pressure” from a financial standpoint.
- Go around the table:
  - What’s most important to you?
  - What should the farm look like 3 years from now?

CAN YOU FIND CONSENSUS AROUND THESE QUESTIONS?

Clarify your expectations for business management

- What do you expect of a manager? What do others expect of you as a manager?
- How will land be cared for?
- How will employees be treated?
- How will equipment be managed?
- How will landowners be dealt with?
- What culture do we want?

Discuss financial performance and commit to / agree on changes.

1. Develop a process for discussing financial performance and upcoming decisions.
   a) Find a time to talk finances.
   b) Use budgets and marketing plans – even if basic.
   c) Clarify goals around working capital, leverage, etc.

2. Clarify individual financial authority vs. group decisions (dollar amounts and key decisions like employee compensation)

3. Agree on how to fund major tax strategies. Especially when you have off-farm partners. (Consider using the same advisor for coordination and reduction in misunderstandings.)

4. Include family members in meetings with accountants, lenders, etc.

5. Make family/partner compensation and benefits transparent – no side deals, or if so, approved!

In summary

- Many years precede most decisions to end a family partnership.
- Each of those years offers a window of opportunity to change or improve.
- Just like “little things” pile up and eventually cause a break, “little improvements” can also lead to a stronger business foundation.
- The key is to communicate: about your feelings and about the future. What is the “first next step” toward improvement?
- Ending a family business partnership is sometimes necessary.
- If it is necessary, and you “end well” – you’ve still been successful!

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