

## Farm and Ranch Business Issues

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## Culture of Your Family Business

- What are your core values as a family and business?
  - Honesty
  - Accountability
  - Keeping promises
  - Pursuit of excellence
  - Loyalty
  - Fairness
  - Integrity
  - Respect for others
  - Responsible citizenship

## Culture of Your Family Business

- Does your family business engage in ethical decision-making?
  - Most basic prima facie duty
    - “telling the truth”
  - Proportionality
    - Does the “end justify the means”?
  - Social justice
    - Is everyone treated “equally”?
  - Utilitarian
    - Do your decisions bring the “greatest good for the greatest number of people”?

## What does the “Family Business Checklist” look like?

- Family Business Checklist**  
August 26, 2012
- Are you in a family creating the kind of family and business that you want? This checklist is designed to give you a quick look at your family business and to facilitate constructive discussion within your family. Ask all members of your family to fill out this questionnaire and then sit down together to discuss your scores. Answer these questions in terms of how you view your family's business today. Rate yourself on the following questions from 1 to 5, with 1 as the low end and 5 as the high end. When appropriate, use 1 to denote “totally not true” for your family business, 3 to denote “neutral” and 5 to denote “totally true” and so forth. Planning in the best way to ensure the long-term success of your family business. Successful family-owned companies have clearly defined policies, engage in strategic planning and know the value of their business. Do you?
1.  Treat family members differently.
  2.  Treat family members differently.
  3.  Communicate level between different generations.
  4.  Communicate level between members of the same generation.
  5.  Level of harmony between family members.
  6.  Family members discuss conflicts constructively within their own branch (the sibling partnership or cousin connection).

30 questions

## FAMILY BUSINESS SYSTEM

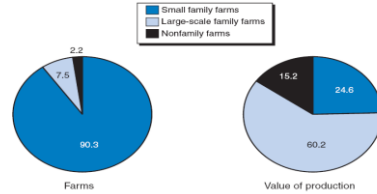


## Farm/Ranch Family Business

- **98% of farms/ranches are family-owned businesses**
  - Small family farms
    - Less than \$250,000 in sales
      - 90% of all farms – produce 25% of output
  - Large farms
    - \$250,000 or more in sales
      - 7.5% of all farms – product 60% of output

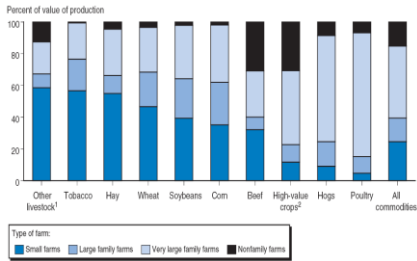
USDA, 2008

Share of total farms and value of production, 2004  
Large-scale family farms account for 60 percent of production  
Percent of U.S. farms or production

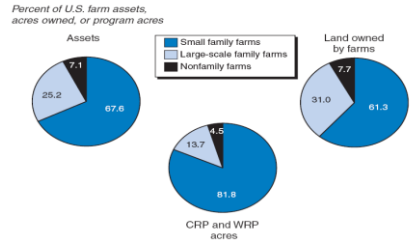


Source: USDA, Economic Research Service, 2004 Agricultural Resource Management Survey, Phase III.

Distribution of the value of production for selected commodities, 2004  
Small farms produce a substantial share of several commodities



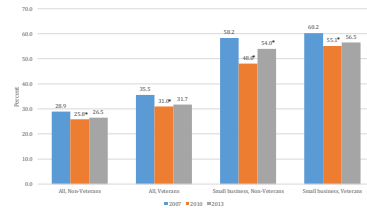
Share of farm business assets, acres owned, and acres enrolled in the Conservation Reserve Program and Wetlands Reserve Program, 2004  
Small farms account for most farm assets

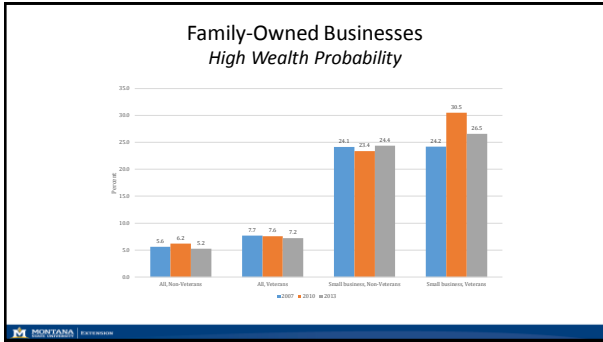


## Recession Impact

Year	Before Tax Income		Net Worth	
	Median	Mean	Median	Mean
1989	79.4	125.1	144.5	578.5
1992	66.2	99.3	123.0	463.0
1995	66.2	96.3	124.1	457.4
1998	64.1	101.9	137.2	541.0
2001	64.2	109.4	139.3	639.5
2004	61.4	100.4	132.2	637.6
2007	55.7	99.1	141.9	656.4
2010	49.1	84.1	82.8	534.6
2013	46.7	87.2	81.2	534.6

## Family-Owned Businesses High Income Probability





Incompatible (?)

Happy healthy family

Versus

Profitable business

- ### Family System
- Family
    - A **closed** group with unique rules and customs
    - Not always have the **will to seek** outside help
    - Family member often answer to a higher standard than hired workers

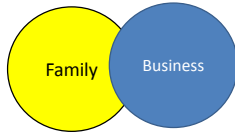
- ### Family System
- Important issues . . .
    - Household income/personal financial management
    - Relationship of family members
    - Communication and decision making process
    - Status of family members
    - Management of family roles
    - Management of conflict and stress

- ### Business System
- Business
    - A **legal** structure
    - Written mission statement and goals
    - Job descriptions
    - Formal responsibilities
    - Training plans
    - Written agreements
    - Performance expectations and measurements

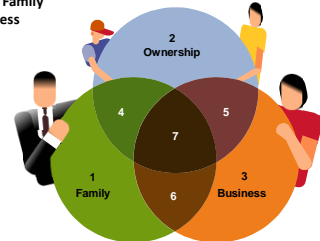
- ### Business System
- Important issues . . .
    - Fit and size of business (what can you manage)
    - Business purpose and potential
    - Financial health
    - Challenges facing business
    - Strengths, weaknesses, opportunities and threats (SWOT)

## Family Business System

- Family-Business (wrong picture)



## The Three-Circle Model of Family Business



Source: Three-Circle Model developed by Renato Taggar and John A. Davis. Found in "Business Attributes of the Family Firm," 1982 Working Paper Harvard Business School Publishing, All Copyright, MA Executive Office, Family Business Center, Harvard Business School.

## Family Business System

- What if . . .
  - 1 – family member, no ownership, not worker in business
  - 4 – family member, owner, not worker in business
  - 6 – family member, no ownership, works in the business
  - 7 – family member, owner, works in business

Where do you fit?

## Differences

Family	Business
<ul style="list-style-type: none"> <li>– Seek harmony                             <ul style="list-style-type: none"> <li>• tolerance</li> </ul> </li> <li>– Rewards                             <ul style="list-style-type: none"> <li>• Given by membership</li> <li>• Given because of need</li> </ul> </li> <li>– Promotions                             <ul style="list-style-type: none"> <li>• Based on longevity</li> <li>• Born into position</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>– Seek profits</li> <li>– Rewards                             <ul style="list-style-type: none"> <li>• Given by performance</li> </ul> </li> <li>– Promotions                             <ul style="list-style-type: none"> <li>• Based on skill/seniority</li> <li>• Hard work, too</li> </ul> </li> </ul>

## Differences

Family	Business
<ul style="list-style-type: none"> <li>– Operating principles                             <ul style="list-style-type: none"> <li>• Passion and caring</li> </ul> </li> <li>– Training                             <ul style="list-style-type: none"> <li>• Implicit</li> <li>• Not standardized</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>– Operating principles                             <ul style="list-style-type: none"> <li>• Efficiency</li> <li>• Objective (usually)</li> </ul> </li> <li>– Training                             <ul style="list-style-type: none"> <li>• Explicitly</li> <li>• Necessary to get job done</li> <li>• Standardized</li> </ul> </li> </ul>

## SOURCES OF CONFLICT

## Family Business Conflict



## Tension (way of life)

- Where are you?
  - I don't think **workaholic** is a bad word
  - I enjoy the rush of working **long hours**, but I'm not a workaholic
  - I can watch my kid's baseball game and **still get some work done** (in my mind)
  - You can't regain your children's childhood – **family is always first**

## Tension

- Are you . . .
  - a **FAMILY** business
  - a **BUSINESS** family

## Tension

- Tensions about Family Business
  - See **Tension** exercise
  - 3 minutes

## What does the "Tensions" worksheet look like?

Practical Global Family Business  
August 24, 2007

Please indicate the level of tension that each issue generates in your family. Using a scale from 0 to 5 to select a tension or intensity level to indicate your level of tension – see below:

0 = No tension at all  
1 = Low level of tension  
2 = Moderate level of tension  
3 = Significant level of tension  
4 = Great deal of tension  
5 = Extreme level of tension

1.  Confusion among family members over who does what in the business.
2.  Confusion over who has authority to make decisions.
3.  Unclear ownership of the business by family members.
4.  Little compensation for family members.
5.  Failure to resolve business conflicts.
6.  Little involvement among family members in the business.
7.  Complicated the connection between family and business.

## Intermingling Money and Labor

- Money
  - Family or business
    - Sources – on-farm/off-farm
    - Distribution – family or business
- Labor
  - Roles



## Unique Type of Commerce

- Business ownership combined with managerial control
  - Transferred between generations
- Principals are related by marriage/kinship
- Family members provide capital and labor
- Family members often live at the place of business (farm/ranch)

## Competitive Advantage

- “It might not be easier to run a business with family members. But when family businesses work, they possess a competitive advantage no other company can match.”
  - Internal functions: sacrifice and resilience
  - External perceptions: in business for the duration

Leslie Brokaw, “Why Family Businesses are the Best”

## Competitive Advantage

- Specific knowledge about farm/ranch
  - Irrigated farmers (3 generations)
- Shared social networks
  - Farm/ranch community (newcomers)
- Focus on the long-run
  - Keep the place in the family

## Competitive Advantage

- Preserve firm’s reputation
  - Honesty/quality
- Reduced costs of control
  - Trust among family members

## Financial Intermingling

- Justification (who cares?)
  - Benefits
    - More efficient use of resources
  - Costs
    - Cloudy business picture
      - cash flow
      - net profit
      - Balance sheet

## Financial Intermingling

- “the cash infusion” or family loan
  - Benefits
    - *idle* cash utilized (efficiency gain)
  - Costs
    - Adequate cash flow (*but, only temporarily*)
    - Net profit overestimated
      - Interest underestimated, net profit overestimated
    - Balance sheet “padded”
      - Assets overstated liabilities understated

## Financial Intermingling

- Family → Business
  - Problematic
    - Except at startup
- Business → Family
  - Positive
    - Role of the business is to support the family

## Failure to Involve Family Members

- Can be costly . . .
  - Decreased participation
  - Decreased commitment
  - Decreased agreement
  - Decreased understanding

## Labor - - Traditional Roles

- |   |  |  |
|---|--|--|
| <ul style="list-style-type: none"> <li>• Supervisor</li> <li>• Employer</li> <li>• Employee</li> <li>• Investment manager</li> <li>• Strategist</li> <li>• Mediator</li> <li>• Manager</li> <li>• Bookkeeper</li> <li>• Back office person</li> <li>• Marketer</li> <li>• Secretary</li> <li>• Repair person</li> <li>• Sales person</li> </ul> |  | <ul style="list-style-type: none"> <li>• Mother</li> <li>• Father</li> <li>• Daughter 1</li> <li>• Daughter 2</li> <li>• Son 1</li> <li>• Son 2</li> <li>• Uncle</li> <li>• Cousin</li> <li>• Aunt</li> <li>• Grandparent</li> <li>• Other extended family</li> <li>• In-laws</li> </ul> |
|---|--|--|

## Labor - - What if . . .

- Traditional roles don't match skills or interests
- Trouble!

## Labor - - Hiring Family Members

- |   |  |
|---|--|
| <ul style="list-style-type: none"> <li>• Advantages           <ul style="list-style-type: none"> <li>– Commitment</li> <li>– Emphasis on relationships</li> <li>– See business as extension of family</li> <li>– Ease of entry</li> <li>– Understands the business</li> </ul> </li> </ul> | <ul style="list-style-type: none"> <li>• Disadvantages           <ul style="list-style-type: none"> <li>– Potential mismatch of skills</li> <li>– <b>Difficulty firing</b></li> <li>– Know each other too well</li> <li>– Lack of objectivity</li> </ul> </li> </ul> |
|---|--|

## Labor - - Disadvantage of Hiring Next Generation

- Entry into business may be **too easy and early**
- Children often **benefit** by working elsewhere
  - Exposure to different ideas and approaches
  - Prove to themselves and family that they can succeed

## Labor - - Hiring Non-Family Employees

- Hazards
  - Competition with family members
  - Getting caught in the crossfire (of family)
- Solution
  - Hire **loyal** (loyal to family and business) employees
  - Treat both family and non-family employees fairly

## Wittman Case Studies (p. 123)

- Unclear housing and compensation policy
- Inequity in capital investment in business and revenue sharing
- Nephew refuses to take orders from Uncle Mike

## Questions