Building the Family Farm

Multi-generational Farm Business

A report for:

By Andrew Baldock

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Executive Summary

Many farmers view their role as stewards of the land, not only from an environmental aspect but in preserving it for their future generations. Ultimately the aim is to provide a comfortable living and to ensure their farm business has the capacity to support their children in returning to the farm should they decide they want to.

Introducing the next generation of aspiring farmers to the family business can be a difficult task with many intricacies that need to be addressed. This report outlines key areas of consideration for family farm businesses looking to continue their legacy.

Attracting our children to become involved in agriculture is often overlooked. Often children are exposed to a lot of negative comments about a lack money and the seemingly excess workloads. It is important that we present a clearer picture of agriculture and discuss various pathways into the industry.

When looking at introducing family members into the family business there is often a requirement to expand the business. It is important that businesses look openly at ways to expand the business. Taking time to look at the businesses under-utilised resources may provide unexpected opportunities to grow the business with the addition of incoming labour units and different skill sets. Understanding interests and skill sets of the incoming generation will help with identifying these opportunities.

If there is a requirement to expand the operation farmers should be open to collaborating with other partners. Leasing, share-farming and joint ownership of plant are common examples of this. This report outlines considerations for expanding the enterprise as well as some examples from around the world.

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Foreword

Following my time at high school and an ensuing carpentry apprenticeship, I returned to the family farm in 2010, age 28. I am a proud fourth-generation family farmer in my local district of Kimba, on South Australia's Eyre Peninsula, with all four sets of great grandparents descending from local pioneering farming families. While I am very proud of my family's heritage and grateful of the opportunities my forefathers have created for me, I can't help but wonder what the business might look like had just one side of the family managed to successfully transition through the generations without splitting the assets.

When first married, my parents Jeff and Jenny worked in partnership with Dad's brother Graeme and their parents. The business had expanded and was now starting to support the growing families of the two brothers. For a variety of reasons the family chose to split the business, allowing the brothers to forge ahead building their own individual farming enterprises. Both businesses have managed to grow over the last 30 years and are now introducing the next generation. This could easily not have been the case after dividing the assets decreased the economies of scale and forced increased levels of financial risk.

Since 2010, both my brother Mark and I have been home on the farm, having started in partnership together, leasing property of our own and operating in conjunction with mum and dad in the existing family farm. Today our business runs a mixed cropping and livestock operation comprising approximately 4,000 ha of cropping and 2,000 merino ewes, rotated across 5,000 ha of owned and leased land. Having both recently been married and having our own children, Mark and I face the same scenario our family faced 30 years earlier; how do we want to move forward and what can the business handle?

This is a story common to many farming families, with the strengths of pride and independence of the typical Australian farmer at times clouding otherwise clear judgment and limiting options for growth. I think that understanding this requirement for independence is critical in ensuring healthy working relationships and harmonious family connections.

My family, like many others, worked hard to grow the business to give the next generation an opportunity to continue the family's legacy of providing food and fibre for the world. Often when children look to return to the farm the business is unable to derive enough income to support the parents as well as the child full time which is especially common among families with multiple siblings looking to return to the farm.

As part of my research, I aimed to look at what successful and lasting family businesses do differently. I looked at a wide array of businesses from the business-minded families of North America, to the subsistence native farmers of Africa, and from the first-generation empires of Brazilian agriculture, to collaboration of once communist-held territory of Eastern Europe. This was a journey of discovery made possible only by the generous support of my investor Grain Growers and the powerful learning platform provided by the Nuffield organisation.

“It won’t happen all at once; it is like harvesting your biggest field, you need patience”

– Reg Shandro

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I would like to thank Nuffield Australia for entrusting me with this life changing-experience and for the opportunity to give back to Australian agriculture through this report. I thank Grain Growers for their investment in myself and Nuffield; without them my journey would not have been possible.

I thank my incredible wife Dale who has supported me though my Nuffield journey. When I was made aware that I had won a scholarship we had Lucy, 2 and Jack, 2 weeks. We welcomed Grace to our family in January 2016 so it is fair to say that Dale has taken a lot in her stride and she continues to see the benefit that Nuffield has brought not only to me, but to our family and farming business.

Thank you to my parents Jeff and Jenny, my brother Mark and our workman Barry for shouldering the extra workload and for supporting me over the past two years.

I would also like to thank those who gave time to share their story with me and a special thanks to those who welcomed me into their homes and provided wonderful hospitality. Also, my thanks to all those within Nuffield who I met on this journey; it has been great and I look forward to seeing you all again.

Nuffield is largely a volunteer organisation and I extend appreciation to all involved in working tirelessly to ensuring its continuation into the future. My particular thanks go to my report mentor Emma Leonard, and the interpreters and scholars who took the time to assist me whilst undertaking my overseas travel.

Abbreviations

ATO- Australian Taxation Office

EOS- Entrepreneurial Operating System

ha – hectare

OH & S- Occupational Health and Safety

US- United States

TPBA- Transition Point Business Advisors

Objectives

The objectives of this report were to explore ways to build the family farm and create a multigenerational farm business focussing on the following elements:

- To identify key issues that lead to splits within family farming businesses and explore what successful family business units do to overcome these issues.

- To examine approaches used in transitioning family members into the business.

- To evaluate methodologies to build the business to support multiple family members.

- To explore the role of diversification in farm business to support growth, job opportunities and ownership for business members.

Introduction

In 2011, there were 157,000 farmers and 135,000 Australian farming businesses in Australia (ABS 2012 p.2) and in 2009 Australian farms produced 93% of the total volume of food consumed in Australia. Family farms are achieving much better rates of return than their corporate counterparts, particularly in the grains industry, realising average returns to investments of 5.5% compared with corporate returns of 3.5%.

While these figures are encouraging for owner-operated farming businesses, the trend is for consolidation of farming enterprises to realise these returns. The number of Australian farmers fell by 11% between 2006 to 2011 with the number of farmers declining by 40% over 30 years to 2011. The age of these farmers has also risen considerably over this period increasing by nine years to 53 years, compared with 40 years in other occupations. In 2011, almost a quarter (23%) of farmers were aged 65 years or over while just 13% were aged under 35 (ABS 2012 p.3). The decline in young participants in farming businesses raises questions as to what may be preventing young family members from being retained on the farm. There may be barriers to attracting young workers to the industry and preserve their tenure on the farm, or indeed the farm business's ability to support family in entering the enterprise.

Family farm succession planning is an integral part of ensuring a successful transition of the family farm from one generation to the next, improving the rate of young people staying in farm businesses, while retaining family harmony and financial security for all parties. There are numerous succession and retirement planning approaches that can be engaged to assist in the business transition and building process, in contrast to the traditional style where only a tax professional may have been engaged.

Identifying ways to cultivate an understanding of the inter-generational differences that exist between members of a farm business will help reduce anxiety during transition. Taking into account the needs of off-farm siblings and any partners that may enter the business, and to have a system in place where those needs are addressed, removes a common source of conflict. Developing an understanding of the business's capacity is a vital pre-requisite to these issues; there are no succession discussions without a viable business that can support incoming members.

A common objective of a family farm business is to pass on the business to the next generation. It is useful to groom the next generation by exposing them to a professional business environment with measured decision making and clear communication channels. This encourages a greater understanding of what is involved in running a successful business. There must be a focus on management systems and role transfer that clearly defines the overall business strategy and the roles and responsibilities aligned with it.

In instances where there is not the capacity to support family members staying on in the farm business, new methodologies of wealth creation within the business could be adopted. These include implementing alternate business structures, such as advisory boards or collaborative business models, and by diversifying the business though ventures including value-adding and contracting.

These options could enable family farm businesses to thrive into the future, even if they may be in a modified state, preserving the ability for those concerned to stay on farms in regional areas and continue the legacy of the proud family farm business.

Chapter 1: Considerations in succession planning

1.1 Approaches to succession

Traditionally, farm succession planning has been undertaken by the farm accountant and family lawyer and tends to have a strong focus on minimising tax through carefully managed asset transfer and retirement planning. While this is an extremely important consideration, it is becoming increasingly apparent that a lack of focus on communication has led to many business breakdowns. Prominent Canadian succession planner Reg Shandro stated that *‘with around 80% of North American farm businesses failing to pass on due to conflict resolution, we need to talk about emotions and implement communication strategies’* (Shandro 2016, pers. comm., 17 July).

Cochell & Zeeb (2013, p.1) reflect this sentiment and present a new concept to multigenerational family transition called ‘Heritage Design’, whereby emphasis is put on preparing the family for their inheritance. It is founded on the following guiding elements which they describe in detail in their book ‘The Midas Curse’ (2013, pp. 107-121):

- *Foster strong and effective communication, and build trust between generations*
- *Develop, maintain and regularly revisit your vision for the present and the future*
- *Successful families meet regularly (family fun, family development & the business of being a family*
- *Promote a balanced definition of the meaning of wealth (there are four generally accepted definitions, including human capital, intellectual capital, social capital and financial capital)*
- *Keep the family business (including investments) separate from the business of being a family*
- *Identify the roles necessary for the family to be successful (non-financially as well as financially)*
- *Inspire individual family members to participate- for their own individual reasons*
- *Train and mentor each generation*

- *Facilitate the genuine transfer of leadership from generation to generation (it is not about what parents give up, but what they gain)*
- *Require true collaboration between your professional advisors*
- *Create mechanisms for ongoing family governance (which is merely the process by which a family makes decisions as a group)*
- *Do it now (successful families take decisive action, they pro-actively address each of these elements. They "*invite them all and work with the willing*"* (Rogerson, in Cochell & Zeeb 2013, p. 120).

Engaging a farm succession or transition management specialist, *in addition* to taxation and law specialists, helps to achieve these elements which are all underpinned by effective communication. As so aptly put by Albert Einstein, '*it is impossible to resolve the problems using the people who created them*'. Involving independent people in family farm succession assists the process by increasing accountability and ensuring those involved have a sense of being heard.

1.2 Understanding generational differences

"*What is necessary to change a person is to change his awareness of himself*."

\- Abraham Maslow

An important aspect of unity, and therefore family business success, is understanding ourselves and the differing views and mind-sets of those around us. People's approach to situations will vary through their life. Without open and honest discussion and a willingness to understand each other's positions, these differences have the ability to dismantle a family's business as well as its unity.

Commonly people's appetite for risk reduces as they approach retirement (Junkin, M. 2015); this is often at the time when the next generation are looking to increase their risk exposure in order to grow the business. Often brothers working together may be at differing stages in life; one may have a young family and the other still single. The brother with the young family may need to be at home earlier throughout the week; the single brother may take a few more days off. These differences can at times cause conflict within a family business.

Business owners, in particular farm business owners, can have a strong connection with the business; it is a big part of their lives and they often see it as a big part of their identity. The incoming generation are looking to shape the business in a way that is unfamiliar to the previous generation, and this can cause a power struggle, which can be destructive to both business and family relationships. By acknowledging these points of view and establishing a clear succession pathway business can flourish through a time that is commonly quite dysfunctional.

1.3 Off-farm siblings and partners of family members

Family businesses are unique in that there is usually a diverse framework of family linked to the business. Many of these family members are not involved in the daily running of the business and can have varying degrees of financial ownership of the business. These family members, while not directly involved in the business, will generally still have some level of interest in the farm, have some degree of emotional connection to the family and have a level of pride in the business. Keeping these members updated on the progress of the operations can help promote healthy family relationships.

"*You do not have to be in the business to be part of the family*"

- Allan Richardson, Business Transition Advisor

Integral to maintaining harmony within a family farm business is for off-farm siblings to have a clear understanding of their place in the business. In particular, this involves knowing what level of ownership they will acquire and at what point this takes place. Even if there is to be no ownership of the business, it is equally important for everybody to be clear as to where they stand. An example of this is the Wandel family of Western Australia. All family members, including those who have left the farm business, are involved in an annual review of the family business along with estate plans and succession plans. This provides transparency to all involved as well as providing an opportunity for anybody to raise concerns in a constructive way. There is an excellent example of a transparent and inclusive process, similar to the one used by the Wandels, in Chapter 2 of this report.

The introduction of business member's partners can change the family and business dynamics. Including these partners in succession planning discussions, as well as implementing regular family meetings, provides a transparency for all involved, as well as giving all members the opportunity to raise concerns and have input into the business. Including partners in this way promotes a sense of security among individuals and reduces the instance of new members questioning existing structures and forward strategies, particularly when events like the birth of children or marriage become a source of uncertainty.

The skill sets and aspirations of these partners should also be considered and valued. These members are not born into the business and will often see things differently to existing family members. Allan Richardson of Transition Point Management, Des Moines-Iowa (Richardson 2016, pers. comm., 15 July), believes that family businesses should welcome these fresh points of view to assist in development. He also suggests identifying and utilising the often very different skill sets of partners can be complimentary to the business. '*Partners are often blamed for the demise of family businesses but the reality is that the breakdown of communication and an unwillingness to embrace them as part of the family unit and business is often at the core of the issue'* (Richardson 2016, pers. comm., 15 July).

1.4 Understanding the business's capacity

An important consideration in succession planning is to analyse the farm business's current resources including land, equipment, infrastructure, skill sets, labour units, intention to keep farming and financial capacity. Doing so provides a clear understanding of the business's position and whether it can sustain the addition of more family members and allow for those families to grow. Numerous guides and checklists exist to assist in this process including the '*Estate Planning Checklist for Farm Families'* (Saskatchewan Ministry of Agriculture 2008, p. 4). Within this publication is an exhaustive list of the financial and personal information required, including the approximate value of land, recent financial statements for the farm and the number of children, their age, marital status and present involvement in the farm, to assess the current position of the business. Lease agreements, wills and consideration of life insurance policies are also included, due to the potential for these to affect the business moving forward.

Often farming families dismiss the capacity of the business to support children returning to the farm on the basis that, following a comprehensive assessment on its position, the current business only just provides a living for those involved at the time. This is a common mistake and a sure way to stifle transition to the next generation. In many cases the introduction of a family member *improves* the viability of the enterprise, if they bring with them some kind of specialisation or expertise. This idea is exemplified by Kisima Farms in Tamau, Kenya. Managing director Jonathan Moss explained that there is a requirement for any family member wishing to enter the existing business to present a business case that can potentially attract additional income. There needs to be evidence of enthusiasm and an ability to think laterally about the businesses, in order to ensure the viability of the business (Moss 2015, pers. comm., 2 April).

An exhaustive business assessment will identify under-utilised assets and skills shortages, and reveal personality traits. Outlining the skills required for different aspects of the farm operation, coupled with an understanding of the current skill sets present in the workforce and their likely tenure within the business can be useful in identifying the incoming member's position. Used in conjunction with lateral thinking, exciting new platforms can be generated to support incoming business members as well as increase the businesses profitability.

Chapter 2: Transitioning family members

2.1 Grooming the next generation

Many family owned businesses have the long-term objective of passing the business on to the next generation; this is often not an easy process. Much planning, preparation and communication is needed to move the business from one generation to the next (Schurle et al. 2012, p. 2).

Allowing members of the next generation to sit in on a variety of business meetings from a young age and talking with them openly about the businesses position and vision will often encourage them to want to contribute to the family business in the future. This contribution may not necessarily result in a direct position within the family business, but would often allow a greater understanding of the business and a desire for all siblings to see the family farms continuation. This in turn will help greatly in future succession planning discussions. (Wandel 2016, pers. comm., 9 April).

Finding a way to instil pride and respect amongst future generations is important. '*We need to understand what it took to get here*' (Shandro 2016, pers. comm., 17 July). This can be achieved by documenting the family farm's history, outlining the journey that has been taken to get there as well as the values and ethics that have been held by previous generations. Including a summary of the major events of the season including yields, prices, climate, capital purchases and personal milestones guarantees the story's integrity for future generations and youth may take more notice if they read this information for themselves rather than being told by their parents.

It is often beneficial for family members to spend time working or studying outside of the family business. This allows them to enter the business with a fresh set of ideas and skills. It can make them accountable, by having to report to someone other than family. '*Where family members enter the family business, have them report to a member of staff who is not a family member where possible. This can reduce some of the conflict and make them both more accountab*le'. (Richardson 2016, pers. comm., 15 July).

2.2 Management and communication systems

‘*With 80% of businesses failing to pass on to the next generation due to a lack of conflict resolution, it would seem essential that a family farm facilitate open and honest communication channels’* (Shandro 2016 pers. comm., 17 July).

Structured meeting processes and open communication channels to engage with all the relevant stakeholders are paramount to the success of a multi-generational family business. When a partnership exists, as with many small family farming businesses, ‘*it is crucial for the greater good of the company, its culture and its people, that the leadership is 100% on the same page*’ (Wickman 2011, p. 213). The author goes on to explain that, as with children who know when parents are not getting along, it is the same with business. Wickman suggests the prescription of a monthly meeting designed for business partners to communicate thoughts and listen to concerns to reconnect and solve issues that may be angering an individual. The meetings are not often peaceful and can indicate the need for mediation. Ultimately, these meetings aim to solve issues before they are brought into the business and exert a detrimental effect on its operation and its people (2011, p. 213).

During a meeting with Alan Richardson, managing director of the family business transition advisory business ‘Transition Point Business Advisors’ in West Des Moines, Iowa, he suggested there are other types of meetings integral to maintaining effective communication within a family business: operational meetings which include weekly toolbox (i.e. what we did last week, what we are doing this week and who is doing it), and budget planning meetings (i.e. questioning ‘what did we make last year, what cash have we got now and what will our peak spending and debt be?’), are of high importance to business functionality. While operational meetings are important in keeping finances in check, business members on task and providing those involved with an opportunity to voice their concerns, such meetings do not do not effectively address issues concerning family dynamics.

Richardson suggests that issues concerning family dynamics often fester privately with individuals or family units as a result of them attempting to avoid conflict and which, left unresolved, can be a greater source of conflict at a later date. ‘*Meetings need to be scheduled,* *prioritised and executed in a productive way as they will build the foundations for an efficient and harmonious work environment*' (Richardson 2015, pers. comm., 15 July). An example of a business that does this successfully is the Walter family of the Esperance region of Western Australia. They set aside time to meet with all family members involved in the business, including all partners. Often done off-farm and facilitated by an independent advisor to provide 'neutral ground', the meetings provide an opportunity to raise operational issues including working hours, remuneration and homestead investment, and human resource issues like requesting time off, children's schooling or a change of employment status for an off-farm partner (Walter 2016, pers. comm., 5 April). Richardson highlighted the importance of every member having their uninterrupted input into this process, particularly those not involved in the day-to-day operations of the business, as they can bring new ideas and novel approaches (Richardson 2015, pers. comm., 15 July).

In addition to family meetings, Richardson recommends the implementation of the Entrepreneurial Operating System (EOS) (Wickman, G. (2011) p. 3) by families during business transitions to assist with business, rather than family, fundamentals. This system assists transitions through strategic meeting systems and focuses on six key components:

- **Vision**
  - Work as a team to clarify the vision of the business. This will include the core values, core focuses and goals for the business.
  - This vision will set out the way in which business members operate.
  - Provides the framework for jobs to be undertaken.
  - This vision should be shared and reiterated with all members of the business.
- **People**
  - Understand peoples core values and skills.
  - Set clearly defined job descriptions.
  - Ensure the right people are in the right positions.
  - Create accountability for individuals.
- **Data**
  - Determine key performance indicators for the business as a whole, AND for individual job descriptions.
  - Accurate data allows for accurate and consistent business management.

    - Create accountability and goals for business members.
- **Issues**
    - Identify and discuss issues as they arise through regular meetings.
    - Become decisive in decision making.
    - Develop a clear company vision and clear job descriptions to make it simpler for individuals to make decisions.
    - Create trust amongst team members.
- **Process**
    - Identify core processes.
    - Document your core processes.
    - Share these documents with the whole business and explain them clearly.
    - By doing this it becomes clear to everyone how to approach various aspects of the business.
    - Make yourself replaceable.
- **Traction**
    - Weekly meeting.
    - Quarterly meeting.
    - These should always a have a clear agenda and start and finish on time.
    - These operational meetings aim to create efficiencies and give control and direction to daily activities.

This management system, whilst aimed at medium to large workforces, provides framework and promotes the discipline needed to maintain an efficient, transparent and trusting work environment no matter the size of the business. By implementing this type of operating system with clearly defined roles, managerial transition and workplace unity are greatly improved.

2.3 Management Transfer

Case Study: Allam Farms, Edmonton, Canada

Clearly defined roles and responsibilities within the business are an essential component of Management Transfer and building the family farm as they allow for concise (and either gradual or immediate) handover of those roles and responsibilities during transition. An example of where roles have been assigned within a family business is the Allam Farms Partnership near Edmonton, Canada. It is a multi-generational farm business comprising of Brothers Chris and Cameron Allam and their parents Brian and Judy. They are now into the third generation and have a strong focus on clearly defined roles within the business to avoid overlapping responsibilities. In their case, in addition to three fulltime employees plus seasonal workers, roles are assigned as follows:

- Brian (dad): CEO
- Judy (mum): Treasurer
- Chris: Chief Operating Officer
- Cameron: Chief Financial Officer

Definition of roles should be as specific as is practical. For example, a large-scale business may have a dedicated parts manager role, where a smaller business like Allam Farms may require parts management alongside other responsibilities *within* one role. Responsibilities within a role are set out in a job description, and breaking down roles into specific task-orientated job descriptions provides a clear understanding of roles and responsibilities that need to be filled.

Case Study: Hollabaugh Bros. Inc, Biglerville, Philadelphia

When assigning roles to people, '*it is critical to understand the strengths, weaknesses and aspirations of those involved in the business to ensure they are allocated roles in which they can thrive in. This will ensure their involvement will contribute to the operations future success*' (Schurle et al. 2012, p. 2). Hollabaugh Bros. Inc., a family owned and operated fruit and vegetable farm with a retail farm market in Biglerville, Philadelphia, are an excellent example of successful role assignment in action. They pride themselves on effective communication and assigning roles and responsibilities across a diverse framework of four generations of family, who are incorporated into their business. Hollabaughs general administrator and acting pest manager Brad Hollabaugh suggested their success hinges on remembering that '*nothing stays the same*'. He said: '*making assessments as to who fits which role needs to be informed by asking who will step into a role if the existing person was highly skilled or specialised'. Bear in mind that 'transitioning from one generation to the next should start earlier than you think it should*' (Hollabaugh 2015, pers. comm. 17 March). The allocation of roles should be reviewed regularly, planning when and who the jobs will be transferred to.

Doing so could highlight potential training needs that may otherwise prevent a smooth transition into the role. Preparation and motivation is key, a sentiment reflected by Krause (2015, p. 198);

> *'The next generation needs to show initiative in gaining the skills and experience needed to be a good manager. They need to put effort into their own management education and skill development. If the next generation are given management without adequate practical experience, they may not be well-enough prepared to maintain a successful business.'*

Many of the Hollabaugh Bros. board members are returning family members who, prior to their return and whilst filling an active role in the business, pro-actively sought to extend their knowledge for the betterment of the business.

All stakeholders should have input when setting out and allocating roles and responsibilities. Doing so means everyone involved has a clear picture of the functionality of the business, and can have confidence in their ability to execute their roles, because they have been approved by all involved. Joint decision making in allocating roles means that those making the final call on a given issue can accept full responsibility. '*I trust you. We made this decision. It is your area to implement. I trust you to do the best that you can'* (Lyman 2004, p.3). It is critical to understand mistakes will be made which is an important part of learning new skills. Shandro sums this up well with his statement; '*when are you going to allow me to make the mistakes to obtain the knowledge that you have*?' (2016, pers. comm., 17 July).

Management transfer evolves naturally within a farm business through making a conscious decision to formally allocate roles. It defines reporting channels and accountability, and how decisions are to be made within specific areas of responsibility. Increased efficiencies within the business can result as decisions can be made promptly and without doubling up of resources.

Chapter 3: Alternative business structures

A variety of business structures can be used to facilitate a multi-generational family business. Collaborative business structures can also provide opportunities for growth to support siblings wanting to enter the family business.

3.1 Advisory boards

There is an increasing trend for Australian farm businesses to be assisted by advisory boards made up of people with specific expertise and experience as farming becomes more complex. There is a greater responsibility to deal with issues including new technologies for crop and livestock production, occupational health and safety rules (OH & S), commodity price volatility Australian Tax Office (ATO) reporting, bank, agronomist and advisor relationships and environmental issues (Krause, M. 2015, p.222). Figure 1 outlines some of the essential roles and functions of an advisory board. Most farm businesses strengths are their operational and tactical management, while strategic direction and planning are their weakness. A coherent process where an advisory board provides guidance in strategic planning and governance, establishes a series of goals and mandates management reporting on process against these goals promotes accountability and follow through. This foundational structure enables risk management, financial monitoring based on projections, planning for the future, accountability in compliance to industry standards (for example, those pertaining to chemical use) and the assessment of the quality of management to be factored into the business operation.

	Essential functions	Actions
Strategic direction and planning	• The challenge for most farming businesses is to focus on the 'big picture', or strategic planning. Most farm business strengths are their operational and tactical management. • An advisory board should provide strong guidance in strategic planning and governance.	• The business planning process recommended for any advisory board is discussed in section **4, Where is my farm business heading?, Module 2.** • This process should also include strategies to manage growth and succession planning, discussed in section **10, Succession planning, Module 3.**
Review goals and agreed actions	• From the strategic planning process, a series of goals should be established. • The advisory board should receive management reports monitoring process against these goals. • Actions that arise from advisory board meetings should also be recorded and monitored to encourage follow-through.	• Developing goals to guide business growth is discussed in section **4.2.3, SMART goals, Module 2.**
Risk management	• Risk is an inevitable part of any business. How it is managed will either greatly enhance or inhibit the success of the business.	• A process of identifying and managing risks to your farm business is provided in section **7, Risk management, Module 3.**
Financial monitoring	• A critical part of any advisory board process is to set up financial projections, so that progress can be monitored and management made accountable. While past financial performance can provide context, planning for the future should be the board's focus.	• This requires: 1. A set of farm management budgets (section **5, How do I measure the financial performance of my business? Module 2**), and 2. Key performance indicators (KPI) (section **5.4, Financial Ratios, Module 2**).
Compliance	• Many industries require OH&S standards for employees, chemical use, and production quality control.	• The advisory board should maintain an understanding of the business' compliance to these standards.
Capability and capacity of management	• One of the key roles of an advisory board is to continually monitor and assess the quality of management. An advisory board can create a 'learning forum', where management can be encouraged to improve its performance through training and mentoring.	• Two key areas of management that can be addressed through training are: 1. Leadership and people management skills: discussed in section **2, Leadership and people management, Module 1.** 2. Farm business management skills: while this complete manual addresses this topic, the 'how' of implementing financial management is specifically addressed in section **5, How do I measure the financial performance of my business? Module 2.**

Source: P2P Agri P/L

Figure 1: Essential Functions of an Advisory Board. Source: Farming the Business: Sowing for your Future. Grains Research and Development Corporation.

The set-up and actions of the board are flexible, so will be dependent on the areas of the business to be overseen. Commonly the businesses accountant or farm advisor will act as an independent chairperson. Having an independent member involved in a family meeting process can assist in collective decision making and bringing needed expertise into the business. A family business can set up their own advisory board, or utilise another organisation to run a board on its behalf.

Case Study: Allam Farms, Edmonton, Canada

The Allam family partnership introduced in Chapter 2.3: Management Transfer, has enlisted FamilyFarms Group, a Canadian advisory group to assist them in outlining their business structure. Family Farms Group also act as independent advisory board members and business coaches to the Allam Farms partners. '*Hearing real life best management practices from other producers across Canada and the US, through our involvement with FamilyFarms Group, has introduced us to new and improved farming and business practices that have benefited our operation*' (Allam 2016, pers. comm., 20 July).

3.2 Collaborative business models

> *'Those who want to see their farms continue as full-time businesses beyond the current generation must continue to explore new ways of doing business. The possibilities are limited only by imagination. Unfortunately, many people tend to be bound by tradition and their own experience. It has been my observation that the top one percent of farm and ranch managers are 10 years ahead of the typical producers. The top 10 percent are out in front by at least five years. Just being better than average is living on the edge'* (Klinefelter 2016, pers. comm., 18 July).

The following is an example of a collaborative business model centred around collaboration between landholders and farm businesses.

Case Study: Carson and Barron Farms, Iowa

Chris Barron and TJ Matthiesen own and operate Carson & Barron Farms in Rowley Iowa and are a prime example of multi-generational farm businesses shaped as a collaborative business model, allowing for varying levels of ownership and participation from a range of family members. They have developed a business model in which they partner with a number of smaller growers to reduce overhead costs and create expansion opportunities. In this arrangement, existing farmers who are often in their later years of farming and do not have a farm successor, contract Carson & Barron farms to perform all cropping related activities.

Figure 2: Andrew Baldock and Chris Barron talk collaboration at Carson & Barron Farms in 2015

The landholder retains ownership of their crop and is given the opportunity to offset the operation costs by employment within Carson & Barron Farms. The landholders existing plant is also able to be traded on a new piece of equipment required by the operating entity and leased to it. This provides some tax benefits as well as reducing the need for a clearing sale.

The landholder can purchase inputs at a reduced price, due to the buying power of the larger entity, while enjoying access to the latest technology in plant and equipment and resulting reduced inputs and a more precise cropping system. Agronomic decisions are made jointly with a professional farm management team. The landholder retains ownership of their grain, while marketing can be carried out by the Carson & Barron team allowing for educated sales and marketing decisions as part of a larger grain entity. Generally, this will lead to higher returns and less washout risk, due to larger volumes of grain being sourced from various regions.

This collaborative model provides Carson & Barron Farms with a fixed income stream, through a management fee and contract operations which create a more stable business. Collaboration has increased input, and plant and equipment purchases which has enabled discount buying opportunities.

Employing landholders within this larger scale business provided the business with a highly skilled workforce and allowed for all members of the business to specialise and work in areas that suit their interests and skill sets. Landholders could enjoy flexibility in their workload without participating in the risk of production, be allocated time away from the business and engage in developing a retirement plan. The experience within the labour force assisted in educating less experienced employees and informed Carson Barron Farms with an in depth understanding of their land.

The biggest strength of this model for Carson & Barron Farms was that it inevitably gave them opportunities to purchase parcels of land from the landholders it employed, in private negotiations, without the need for purchasing additional plant as it was already in place.

This business has a focus on strong relationships and trust, adopting a 'one operation' approach to the system; *'to make the system work the principles of those involved must align and really, a one operation attitude is needed. Clear communication is required to create these partnerships*' (Barron 2016, pers. comm., 19 July). Clearly defined roles and a strong focus on communication underpins a proud and harmonious work culture at Carson & Barron.

Case Study: groPartners, Western Canada

An example of collaboration centred around partnerships with grain farmers and farm land investors is groPartners Inc., a farm and land management company serving the Prairies region of western Canada. Partners Bryce Thompson and Earl Smith have created a business model that links farmland investors and growing family farm operations. The investors they work with generally have a connection with agriculture and are looking for sustainable long term agreements with growers who undertake good land stewardship practices. '*We look to facilitate long term agreements between investors with a connection to the land and quality farm operators*' (Thompson 2016 pers. comm., 14 July). Most of groPartners clients have made money in other industries and are investing in farmland because it is safe, or sometimes because they have a family tie to the land.

The land investors, not the farmers, pay the groPartners land management fees, and the owners' interests are the company's first priority. In addition to a rent cheque at the end of the year, land investors want a long-term relationship with the farmers they rent to, looking for someone who will care for their investment. '*Renting land brings inherent risk in maintaining the farm*' says Thompson. '*Properly managing the relationships with landowners helps reduce this risk*' (2016 pers. comm., 20 July).

These agreements can take many forms, from straight lease agreements to joint venture agreements where the landholder takes on the production risk by deriving their income as a percentage of grain sales. In many instances the landholder supplies the land and a percentage of the input costs. This gives the landholder greater exposure to upside potential and in many cases greater taxation benefits. This system also benefits some growers, giving them alternate access to capital and reduced risk exposure.

When looking at potential tenants, groPartners look for business-minded farmers who have a good understanding of their finances, as well as using modern and sustainable farming techniques. They make a point of partnering with younger, growing farms as they aim to form lasting relationships. They also look for farmers with experience off farm. *'Generally, farmers with some off-farm experience in other industries understand other people's perspective better and are more willing to find a win-win situation'* (Thompson 2016, pers. comm., 14 July).

Thompson suggests communication between the landholder and tenant is key to forming lasting partnerships, keeping the landlord informed of the operations and making them feel proud of the management practices in place which will promote long term tenures. '*If you take the time to explain modern farming practices and make landholders feel a connection with the land and its management you're more likely to forge lasting partnerships'* (Thompson 2016, pers. comm., 14 July). In agreements where the landholder is participating in the production risk, it is important to give regular updates about crop conditions and commodity prices so that there are no surprises at harvest. Ohio State University's fact sheet, *Managing Landlord-Tenant Relationships: A Strategic Perspective*, suggests providing landlords with a detailed resume of the farming operation. This could include business objectives and philosophies, history of the business, education, tillage practices, equipment, land tenure, financial strength and relevant family information (Moss & Erven, 2001, p.1). Becoming a preferred tenant can create many opportunities for growing the family business. Understanding both partys' positions and aspirations, as well as providing flexibility in making these arrangements, can create many opportunities.

Where purchasing land is beyond the family businesses capabilities, rental or share-farm agreements are a viable option. It may be an option to present a business case to a potential investor or investment advisor as sale opportunities arise. The romantic notion of land ownership is a strength when looking to attract potential investors; it can be an advantage to sell the notion of ownership when looking to attract an investor. Ryan McGeachie (Chief Commercial Officer - Structured Products Americas, BP Energy Company) explained that '*investors are currently looking at returns of 6-7%, with the golden investment being one with an annual return as well as capital appreciation* (2016, pers. comm., 13 July). Investment in farmland is an attractive option for many investors. McGeachie stressed the importance of understanding the investors' expectations in terms of returns as well as the timeframe for the investment. It is of little value partnering with an investor who is looking for a short term or sporadic investment.

In his paper Klinefelter (2009) talks of collaboration to achieve economies of scale, lowering costs and providing more specialist management skills while still maintaining separate ownership. In some cases, groups of farms have enlisted professional services like chief financial officer, spreading the workload and the cost between the enterprises. Another example is group-buying networks where farm businesses collaborate their input requirements to tender for better terms of trade. He writes…

> *'If national brands and Fortune 500 companies believe they achieve greater efficiency, reduced costs, and better risk management by working together, why should farmers with $1 million, $10 million, or even $100 million in revenue think they are better off and can do a better job by going it alone? It has been my observation that fierce independence can often be as much the cause of problems as it is a source of opportunity. Remember the old saying, pride cometh before the fall'* (Klinefelter 2009, p.1).

Chapter 4: Diversifying the business

When family members enter the business, there is a requirement to increase business turnover to support the associated extra costs. It is common to purchase or lease additional land and increase the area of production, however thought should be given to alternative income streams for the business. By assessing the skill sets of the new workforce, along with the current resources and business environment, there may be room for diversification in the business model, potentially reducing the risk profile of the business.

4.1 Value adding

Utilising commodities and adding value to them can happen in many ways, for example establishing a brand to service higher value markets, processing and packaging and lot feeding.

Case Study: Mason Dixon farms, Philadelphia

A unique example of value adding is Mason Dixon Farms, Gettysburg Philadelphia. While on a tour of the property in March 2015, Richard Waybright explained their system of dairy production. The eighth-generation family business runs a 2,400-head robotic dairy operation harvesting silage from the property's 3,800 hectares.

Figure 3: 2015 South Africa GFP group standing in front of the 2,400-head robotic dairy operation at Mason Dixon Farms, Philadelphia

The business started harvesting methane from the herd's manure more than 30 years ago, using a bio-digester. Automatic scrapers remove manure from the sheds which is pressed to remove dry matter and pumped into a digester. The digester fuels a series of power generators, producing enough electricity to power the entire property including the dairy and ten centre-pivot irrigation systems. Excess power is sold back into the grid. Dry matter from the manure processing is used for bedding and the liquid from the digester is pumped through the irrigation system providing nutrients for the crops. This system allowed the business to add value from what was traditionally a waste product, dramatically reducing input costs and providing employment for many family members.

'*The farm is a living lab kept profitable through efficiency and innovation. Change is inevitable. We try to keep up with the new technology and use it to our benefit. None of this is possible without the teamwork and cooperation of the family and all the employees, past and present. We all participate in think tanks and make decisions that will work*' (Waybright 2015, pers. comm. 28 March).

By developing this integrated operating system, input costs are reduced and a wide range of employment opportunities are created. While they are encouraged to return to the business, the younger generation of the family business is encouraged to seek employment off farm after their education to broaden their skill base. If they return to the business they are put into positions which they have interest and skills in. 'Almost all of the buildings and infrastructure have been built in-house by employees including family members, keeping everyone employed rear round' (Waybright 2015, pers. comm. 28 March).

Case Study: Natais, France

President of the successful popcorn business Natais, Michael Ehmann and his family moved from a Stodgaurd Chicken farm in 1981 to take a 250ha maize growing property in France. In 1991 following a trip to the United States Michael made a test planting of hybrid corn for popcorn. At the time popcorn was not produced in any volume in Europe. A sample of corn was initially sent to Germany for processing and was offered a subsequent 50t contract. In 1994, the family established their own popcorn brand, outsourcing the processing and packaging. Michael established exclusive supply agreements with numerous growers across the region to supply the brand with a quality product. In 1997, the business set up its own packaging plant. Today the business produces 900,000 tonnes of popcorn worldwide. Natais sells popcorn under 15 different brands across Europe, servicing a variety of markets allowing for a range of popcorn quality to be utilised. All marketing and business development is handled in-house.

Michael shared some advice when looking to build a business; '*step back and look at the bigger picture. Do not get caught up in the day to day running of the business. Take time to reflect on the journey*' (Ehmann, 2015, pers. comm., 2 March).

Looking at the success of this business reinforces the importance of having an open mind when looking for opportunities. Whilst maize was grown, popcorn was not considered suitable for the French environment and there was little to no market for the finished product. By taking some educated risk the small family farm now has added value right throughout the supply chain.

4.2 Diversification

Complimentary diversification can increase business profits by keeping otherwise outsourced services in house. An example of this is Fairview Wines in the Cape Town region of South Africa.

Case Study: Fairview Wines, South Africa

Charles Back and his team manage an extremely diverse agri-tourism venture involving winemaking, distilling, brewing, cheese production, chocolate making and smoked meats, all produced, manufactured and served to clients on-site providing the ultimate 'paddock-to-plate' experience for guests. This business model allowed them to retain control of the whole supply chain. The impressive business model also includes an IT promotions business and a commercial laundromat, both a result of the desire to utilise existing skill sets and keep profits within the business. Why pay someone else to do laundry when the business is capable of turning it into a business itself?

Figure 4: Fairview Wines diversification into chocolate, cheese and gourmet delicacies

Case Study: Kisima Farms, Kenya

Another example of thinking laterally in approaching business expansion is Kisima Farms, Kenya. The multigenerational farm started in the 1920's as a Merino sheep business. It has since diversified extensively, moving firstly into broadacre cropping and now includes flower production, and broad acre potato production utilising aeroponics (where nutrients are aspirated onto potato roots enclosed in plastic) a tree nursery and plantations.

Figure 5: Seed potato production. L-R: Exposed potato roots receive aspirated nutrients in aeroponic seed potato production, free-hanging aeroponic potato beds, resulting seed potatoes.

This business is unique in that each of these enterprises has evolved from the family’s requirement for incoming family members to present a sound business case on returning to the farm. Each enterprise must sustain itself as a stand-alone business to gain the backing of the family business. This system allows a number of family members to work within the business while enjoying a level of independence and responsibility. It also allows them to shape a job which suits their skill sets and interests.

Conclusion

This research report examined both issues that impede successful transition of family farming businesses to the next generation and strategies to overcome them. Most successful family farm businesses utilise a succession plan that allows all existing family members to have input into the business, even if they are not a part of the operational business. This makes them feel important, and feeling a sense of place *is* important. There is an increasing focus on the human side of adopting a succession process, aimed at preparing the family for their inheritance rather than focussing on tax and legal requirements alone during transition. While these are extremely important considerations, it is becoming increasingly apparent that a lack of focus on communication has led to many business breakdowns. Transition advisory is becoming big business as more family businesses realise they cannot do it alone.

People within successful businesses will understand and allow for the different points of view held by members. There will be ongoing periodical assessments of the businesses position, so that at all times there is a clear understanding of the capacity of the business, where it is headed and where anyone interested in being part of the business may have a niche.

A sense of pride is evident in family farm businesses not only in Australia but around the world. There are some incredibly innovative thinkers within the agriculture sector with this sense of pride who, when faced with the prospect of turning away family members from a business that on face value cannot support them, turn to value-adding and diversification. These people are making huge successes, not only out of the family farm business they were inducted into, but out of new business ventures they have created out of the desire to support the next generation of family members wanting to be a part of the business.

Where value adding and diversification is beyond the realms of possibility, for example in the small family business that is perfectly happy to keep chipping away doing what they've always done without having to keep up with the latest advancements in technology and farm management practices, there are thriving collaborative business models to which families can join and benefit from. Collaborative models allow for varying levels of ownership and participation from a range of family members, while collaboration centred around partnerships with grain farmers and farm land investors, assist in continuing the family legacy where purchasing land is beyond the family business's capabilities.

Through all the variants of farm businesses that were observed during the course of this research, and all of the succession specialists and advisors, one thing was abundantly clear; that personal relationships are the single most important aspect of the transition of the farm business from one generation to the next. It is vital to take care with intricacies such as personalities, people's dreams and aspirations and trying to create roles within the business where their strengths and specialisations can really shine and be converted into profitability. Knowing that there are an enormous amount of consulting firms and specialists at their disposal, farmers need to be pro-active and engage with the expertise so that they can be one of the businesses that thrives *despite* the challenges present when business is done within families, not fail *because* of them. Engaging professional assistance will be a small price to pay if farming families realise what they stand to lose if they do not work well together.

Recommendations

Farmers around the world are too commonly caught up in the day to day running of the farm, giving little time or thought to the continuation of the family business. Without setting aside time for planning the path forward and reflecting on the journey much of this hard work will have been in vain.

- Succession planning needs to be an inclusive process, involving both farming and non-farming family members. There needs to be a strong emphasis on the human element of family business.

- Clear communication and management processes must be implemented in order to successfully operate multi-generational family businesses

- Farmers need to be more innovative in building their business expansion. Collaborative approaches to expansion as well as integration within supply chains should be considered.

- Multi-generational businesses can take a collaborative approach to business structures to create independence for all members, while still realising the benefits of scale.

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Plain English Compendium Summary

Project Title:	**Building the Family Farm: Multi-generational farm business**
Nuffield Australia Project No.:	1510
Scholar:	Andrew Baldock
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Objectives	• To identify key issues that lead to splits within family farming businesses and explore what successful family business units do to overcome these issues. • To examine approaches used in transitioning family members into the business. • To evaluate methodologies to build the business to support multiple family members. • To explore the role of diversification in farm business to support growth, job opportunities and ownership for business members
Background	There is a declining number of the next generation returning to family farms in Australia, with breakdowns commonly attributed to the absence of effective succession plans. Farmers around the world are commonly caught up in the day to day running of the farm, giving little time or thought to the continuation of the family business until it is too late.
Research	Research was conducted in South Africa, USA, France, Canada, Brazil and Australia, and focussed on succession planning and business advisory services, business expansion though diversification and value adding and collaborative business models as pathways to ensure the continuation of the farm business from one generation to the next.
Outcomes	Succession planning is an inclusive process involving farming and non-farming family members. Strong emphasis on the human element of family business and clear communication. Management processes should be implemented to operate multi-generational family businesses, leading to innovation and business expansion.
Implications	This report outlines the key considerations for transitioning a family farm business to the next generation and should be used as a reference point for anyone looking to transition their business.
Publications	2016 Nuffield National Conference, Adelaide, SA (September 2016)