

**FAMILY BUSINESS CONTINUANCE: A GLOBAL PERSPECTIVE**

*Mandi McLeod B.Agr.Sci M Rural Systems Mgmt. NSc*

*System Insights Ltd*

**Abstract**

*The traditional definition of succession in a family business is to pass the assets on to the next generation based on either primogeniture or split equally amongst siblings. Very little thought is given neither to the 'business' aspect nor to the emotional complexities which are inherent in a family business and are possibly the most significant factors to be considered in terms of success or failure.*

*A lack of transparency and poor/ineffective communication between individual family members are cited amongst the main causes of conflict and failed management transfers. In a paper written by Danny Klinefelter, Mark Voeller reports that 60% of failure can be attributed to these issues and 25% as a result of poorly trained successors.*

*The current global climate is a schizophrenic confluence of sustainability, security (food, water, energy, credit) subsidies and succession overlaid with the Euro-centric view of 'not in my back-yard'. This pushes production to less environmentally and economically mature countries whose resultant lower costs of production impact on the viability and therefore future of many overtly-regulated EU farm businesses.*

*Farmers need to take responsibility for where they are today and where they want to be in the future and not blame others for not taking advantage of the opportunities that they themselves could see. To do this, they must become more cognizant of the global pressures on agriculture and food production, the possible impact of this on their businesses and their role within this.*

*Farmers, like any business must embrace the concept of succession and view this as a segmented process, which takes into account people; their visions, dreams and desires for the future rather than the singular tax-driven asset transfer process that defines succession today. Family farmers cannot remain ignorant of the global context, market pressures and consumer demands, in which their businesses operate nor can they ignore the more professional and strategic aspects of managing their businesses i.e. finances, human resources, communication and conflict management etc*

**Keywords:** Succession, Business Continuance, Family Farm Businesses

Continuation of Sustainable Family Farm Businesses in a time of public 'scrutiny and challenge' over the environment, carbon, animal welfare, security and supply issues of food and energy.

## Introduction

The term 'succession' is usually used in the narrowest sense of asset transfer between generations with little attention paid to management succession in the case of a (family) farm business or succession of board members at a board and governance level. The findings of the Farm Transfers Survey<sup>25</sup> show that financial decisions are most likely to be made by the farm operator without any help from the successor. The data also shows that if successors are going to be solely responsible for a decision, that decision would most likely involve livestock management, and the selection, recruitment, and supervision of employees.

With agriculture contributing approximately 15% of GDP, New Zealand's aging agricultural population is of concern, not only in terms of food production but in agricultural leadership as well. The majority of agricultural leaders are derived from a practical-farmer base who have an estimated average age of 65 years old. These farmers have developed skills through their active involvement in industry organizations such as Federated Farmers, Meat and Wool, NZ Dairy Board etc.

Traditionally, New Zealand has had a relatively self-replacing dairy industry through share-milking which allowed new entrants the opportunity to build up a herd of cows and develop crucial business skills before purchasing their first farm. Whilst this has allowed a ready-market of first farm buyers, most dairy farmers still aim to pass the family farm on to family members.

The sheep and beef industry has a more traditional approach to succession, with family members taking over the family farm or if the property and or assets are sold the proceeds divided equally between family members.

Changes to the entry cost of farming relative to income has altered the perception of farming as a 'easy' option for those who saw themselves, or were seen as academically-challenged or production orientated to that of a business with increasing regulations and decreasing profit-margins requiring a business management focus.

In 2011 the global face of production agriculture is gaining more than wrinkles as we strive to conduct our businesses within the '4-S's of agriculture'– Sustainability, Security (food, water, fuel and credit), Succession and Subsidies which are all professed to be of paramount importance.

Sustainability is defined as producing enough high quality food to feed a population of nine billion utilizing technology (not yet invented) that will decrease the carbon footprint from agriculture; improve the environment (no-till, no chemicals etc); animal welfare focused; has minimal reliance on fossil fuels and a farm business that is capable of being transferred to a succeeding generation.. There is a social driver to ensure that the ascetics of the rural environment, including historically significant features are maintained or enhanced and that consumers have access to locally produced food. Food miles appear to be soon made redundant by an increase in awareness of the total energy cost of consumer-available food, irrespective of where in the world it is produced i.e. distance from market. This new approach will take into consideration those geographically disparate countries who

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<sup>25</sup> John R. Baker, Anne E. Hensley. Farm Succession and Inheritance: A Comparison of Pennsylvania and New Jersey Data with International Farm Succession and Retirement Research

have the ability to fully utilise natural resources to produce food at a lower on-farm energy cost than those geographically closer to markets but less energy-efficient production systems.

In the past 50 years, the demand for water has increased three times and is expected to be the single largest threat to global food production in the next ten years. By 2050, the half a billion people who live in countries chronically short of water will increase to more than four billion and the global population increases trends towards 9.2 billion. Changes to the climate will result in an increase of 40-170 million undernourished people worldwide and energy, the single most important driver in food prices in recent years, has had insufficient lack of on-going investment in new oil production to prevent this from becoming even scarcer in the future. The World Bank projects that by 2030 worldwide demand for food will increase by 50%; and for meat by 85%. Availability of credit continues to be threat to growth as the uncertainty over property values is enmeshed with equity and therefore impacts on lending criteria. Banking institutions reaction to the on-going financial crisis has resulted in the destruction many relationships between bank managers and clients. The apparently overnight decisions to place some farming enterprises into receivership, alterations to interest rates or in some instances the up-lifting of herds has potentially irrevocably damaged the respect between the farming community and financial institutions. The inflexible fiscal attitude taken by many banking institutions clearly adversely impacts on the viability of many farm businesses as seen by the increase in number of New Zealand farm business placed into receivership. Fewer farm businesses results in fewer succession opportunities, a higher concentration of farms owned by fewer and older hands which places sustainability of the business under question.

Is food security just a socialistic red herring? There is currently enough food produced in the world to meet the nutritional requirements of all peoples; in fact UK research shows that one third of food purchased by consumers is wasted. Food distribution and the ability of the planet to support an ever increasing population is more of an issue than the amount of food produced. With the increase in water scarcity and impact of disease such as un-treated HIV in many African countries, means that the number of adults and the amount of viable land available to produce food is disproportionately affected. Energy scarcity and climate change will also have significant impacts on the global distribution of food production and distribution as production shifts to those countries with the natural resources that are not only capable but are also sanctioned for exploitation in the interests of food production. Some of these countries may find themselves in the position of having their resources exploited by countries with food security concerns. With increased competition for productive farm land from international buyers with greater buying power pushing land prices higher, family farm succession may become more dream than reality.

Subsidies, the back-bone of European agriculture and appear to be designed to create a 'fair' playing ground for those in the EU via production caps etc. They could also be viewed as 'guardian-grants' to ensure that aesthetically the landscape does not change; nor environment and animal welfare practices be unacceptable to consumers as they drive past on a Sunday. It is apparent that some of the basis for subsidies is to ensure that a population of regional food producers is retained to prevent reliance on 100% agricultural imports and the vulnerability that this could bring in the event of another war or similar crisis. It is true that there are those farmers who are 'farming subsidies' but equally and more importantly there are those who are frustrated with the rules and regulations and want to get on with the task of producing good quality food in an efficient, sustainable and profitable manner. It is also a sad reality that when one crop is subsidised, other crops are not developed –

often at the expense of food production. The recent push for corn to be grown for ethanol production and the flow on effects for animal feeds (decreased availability, increased prices) is one example of how subsidies can have a detrimental impact on other food producing industries. Another possibly more invidious nature of subsidised local agricultural production is the impact on developing countries. For example, sugar subsidies benefit sugar beet producers in Europe to the detriment of sugar cane producers in Africa and milk subsidies in the US and EU impacts on the milk price in both New Zealand and Australia.

Contrary to the enviousness of subsidies, they can now be seen as disempowering and a disincentive for agricultural production innovation – a potential Armageddon of agriculture?

In terms of succession the aging agricultural population is as big an issue in Australasia as it is in the UK and US with the price of land and non-subsidy farm returns making the challenge for the next generation extremely difficult. Those farmers who do succeed in taking over the family farm are then frustrated by the disempowering regulations that appear to practically force subsistence farming in the name of sustainability and fairness (production caps). On the flip side there are non-farming opportunities for increasing incomes through farm shops, barn-conversions into office and retail space and 'subsidy chasing'. Despite a large number of young Americans wanting to get into farming much more of the 'instant-generation' are put off by the long hours and low incomes. Whilst some of these issues could be resolved by more of the land and business owning generation making the commitment to having a successor, the question of WHO will feed the next generation is as problematic as ever.

The issues surrounding succession are further compounded by a lack of knowledge and awareness of the processes involved in moving a family farm business beyond the current generation, without diminishing viability, such that both the family and the business succeeds.

For the family business to continue through successive generations, the following are vital:

- Determination by the parents that they are ready for a partner in the business and that the identified 'successor' committed to farming and what it may take to follow the strategic direction required by the business to grow.
- That the successor has the necessary management and business capability or has the aptitude that they are willing to learn and/or manage a team with the appropriate skills.
- Effective and responsible communication to ensure that there are no unmet or unrealistic expectations between family members and/or staff. Mind-reading is neither a pre-requisite skill nor one that should be required to be developed.
- Knowledge that the business is viable or that it can be viable and what it may take to achieve this followed by an acceptance that this is what is desired. In the past decade, many New Zealand dairy farmers in particular have abdicated their fiscal responsibilities to their banks who in return have produced budgets based on potential capital gains rather than sound business performance of cash profits.
- Utilising an independent professional facilitator who is skilled in effective, responsible communication and conflict resolution management who can guide the family through identification of key issues and develop a business continuance plan that meets the needs, wants, expectations and appropriately deals with their fears,

- Professional approach to the business management aspects to ensure that the business is ideally placed to prosper in the future. This should include mutually shared and accepted vision, values and intention for the future of the family business.
- Knowledge and understanding of the businesses position globally and taking ownership of this knowledge.
- What makes a difference between success and failure is the manager of the business adopting a culture shift from production to management of the business (Motivation x Capability = Performance)

Involvement in the development and implementation of family farm succession programs coupled with my personal situation of being 'the farmer in the family' with four non-farming siblings has impressed upon me that succession is not the primary domain of lawyers, accountants and/or financial planners. The family needs to have a vision for the future of the business that the plan is based on, utilising the different professional for their 'tools' to make this vision a reality.

Families are complex beasts consisting of individuals linked through a common lineage, sometimes with little more in common than the blood that binds them. It is these individuals that form the heart and soul of a family farm, ensuring its ultimate success or failure, yet it is these same people that are forgotten in a traditional succession planning model, developed around tax-effective mechanisms for reallocation of assets when the parents die.

'New Order' business continuance and succession plans need to take into account the three major elements of the family business – the individual family members, the management of the business and the owners of the assets that are operated by the business. Each plan must be produced based on a vision for the future that allows the family business to be capable of being transferred to successive generations as a viable operation. For this to happen, each family business needs to understand where their business fits into the global market place and actively seek opportunities to increase performance through the innovative maximisation and marketing of all resources available to them. Only when the importance of business management and allocation of resources for production is truly understood and accepted as the true key asset and resource in family businesses will succession be truly successful.

### **Summary**

What this distils down to is the onus being put upon the producers of food to achieve mission impossible – increase food production but also reduce their carbon footprint irrespective of what this really means and how it is measured; reduce our reliance of fossil fuel despite having no viable alternatives; reduce our impact on the environment, especially greenhouse gas emissions from livestock; use less water and of course do it cheaper! All of which is to be achieved within the context of an aging farming population and an unsexy image of agriculture as a career choice or business investment opportunity.

There are always going to be tensions between the conflicting views on land use – protecting the environmental protectionism vs. production agriculture which will require debate to ensure that there is an appropriate balance. It seems that the debate between the radicals that gets the most press and extreme reactions. The voice of reason is lost in the conversation and will be to the

detriment of agriculture and society at large if it does not get louder. Whinging farmers and farmer lobby groups must become more professional and proactive in their approach or they will be reduced to farming in a metaphorical strait-jacket imposed by their antagonists, the ‘food as hobby’ groups, the extreme animal rights activists and the environmental fundamentalists. Most businesses use professional advisors to assist them in their planning; agricultural businesses should be no different. Professional planners can assist farm businesses to shift the emphasis from production to productivity and attain sustainable, viable operations than can be and are desired to be generationally transferred.

Currently supermarkets in the EU and Australasia have a major influence on what food is produced, how it is produced and what price they will pay for it to ensure that they have a ready supply of cheap food. But who is it cheap for? The call for greater co-operation and collaboration between farming businesses and a closer relationship between farmers and consumers is required to redress the power supermarkets have on the economics and therefore future of food production. ‘Open Farm Sunday’s’ a concept developed by Nuffield Scholar Ian Piggott is once such way that ordinary consumers can gain a greater understanding of how their food is produced and develop an empathetic relationship with farmers as opposed to the antagonistic view that currently exists of farmers being lazy, subsidy driven and harmful to the environment.

With increasing challenges in viable farm business succession and the threat of farmers becoming an endangered species, the question of who will produce the food must also be addressed. The relative importance of the family farm to international agriculture is in real danger of being underestimated as the drive to push production increases. It is apparent that whilst the affluent world wants an environmentally-enhancing food production system, there is a general lack of understanding as to what this actually is and what implications this may have of the quality, quantity, variety and ultimately the price of food. There is also little appreciation of what is involved in food production at the farmer-end of the equation and how much of the total energy required to produce consumer-ready food is generated on-farm relative to processing and packaging the food to meet consumer demands.

The future for the farmer from a Euro-centric view is as a guardian of the visual physical environment; model farms that everyone can enjoy with no noise, air or water pollution; no dirt, mud or mess and fat, happy animals. Every family needs a farmer – just not in my backyard thanks!

With all this in mind, it is the continuance of viable and sustainable agricultural businesses that is the biggest issue facing food production and therefore is the C-word of the future.

In an attempt to summarise all the information it could be said that the Euro-centric view of agriculture, whilst concerned with the 4-S’s of sustainability, security, succession and subsidies is mostly concentrated on the ‘NIMBY’ attitude – Not In My Back Yard. However, despite the complexities surrounding its production the global demand for food cannot be ignored, nor can the fact that most of the world’s food is currently produced by family farms. As a global agricultural community, we must recognise these pressures, mitigate or minimise their impacts (both real and perceived) and continue to push for society that appropriately rewards producers for the risks and efforts involved in the production of high quality food within the sustainable parameters required. Farmers must also take responsibility for and acceptance of the fact that they are in business and as such they are responsible for the future of the business and the development of business

continuance and succession plans. It is only then that farming will be taken seriously as a career and business worthy of respect and a desire to be participated in.