Frontier focus

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A Different Kind of Risk I

By Lance Woodbury

Farming and ranching today have plenty of "hard risk," that is, those tangible elements that make such a difference in whether one has a good year or a bad year. For example, marketing risk, weather risk, and safety risk are just three elements many producers spend significant time considering. Other risks might revolve around taxes, interest rates, input prices, vendors, chemical application, water quality or quantity, and so on. The point is, many of these risks are quantifiable and clearly visible from a financial statement perspective.

Another important risk - more long-term in nature and often imbedded deeply in the organization's culture - is what I call family business relationship risk. It is a "softer" type of risk comprised of relationships, communication and expectations. To be more specific, I define relationship risk as the *likelihood of negative interaction between family members and/or employees* that can destroy family relationships (including employee relationships), ruin a business partnership, and/or cause the demise of the business.

Lance Woodbury speaks to commercial operators and Frontier Farm Credit staff about strategies to enhance communication and business relationships among family and non-family members at the Frontier Farm Credit Commercial Ag Symposium held in February.

Over the next few newsletters I want to suggest that there are three aspects of relationship risk, and offer some ideas on ways to mitigate such risk in the family business. Note, however, that family businesses, by their very nature of the overlapping management, ownership and family systems, will never *eliminate* relationship risk. The best one can do is learn to manage such risk with appropriate behaviors.

The first aspect of relationship risk is **psychological ownership risk.** It involves the level of emotional investment your key family members and employees have in the direction of the business. In short, the key question is, "Do people feel they have a stake in the future of the operation?"

I see this risk surface most often in comments about motivation. The older generation will wonder if the younger generation really wants to work, or whether they are excited about the business opportunity, or whether they are passionate about the farming operation. Or, one brother will question another brother's commitment to the business based on time spent in the business versus family or recreation time. Whatever the scenario, the concern is that a family member doesn't seem "committed" to the future of the business.

To mitigate this risk, I suggest family businesses have a specific conversation about each person's vision for and role in the business, to see if you are on the same page about where the business is headed. What are the common goals? How does each person see their role over the next few years? How rapidly do you see increasing your land base? What will the retirement of the older generation look like? What is your plan for your livestock business in the current cycle? How do you plan to use technology? What do you hope the business looks like in 5 or 10 years?

Asking these questions - and really listening to your family's input - gives people a stronger feeling of investment in the business, and can cause people to re-engage in bringing the family's vision to fruition. I encourage family to invite in-laws to this discussion, and to share the results with employees and off-farm heirs. When people in the family and in the business feel like they psychologically own where the business is headed, the less likely you are to experience negative interaction involving people's motivation or intentions.

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