

Woodbury: Farm Family Business

Taking Over the Family Business Requires Education and Drive

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Successors may lack experience managing through economic challenges, but financial skills and adaptability can be good predictors of endurance. (Photo courtesy USDAgov)

Editor's Note: Lance Woodbury writes for both DTN and our sister publication, "The Progressive Farmer." He is a Garden City, Kan., author, consultant and professional mediator specializing in agriculture and closely-held businesses. He also is a featured speaker at a pre-Ag Summit DTN University workshop Dec. 7 in Chicago. For details go to www.dtnagsummit.com or <http://goo.gl/...> To pose questions for this column email lance@lancewoodbury.com

I have heard the concern over and over again: The older generation is preparing to transfer responsibilities for the farm, but the parents don't see the same determination in their children that they felt 30 or 40 years ago, when taking over or starting the business. In fact, the younger generation may have returned to the farm during some of the best years of American agriculture.

While children may have been very young during the lean years, they don't see and understand the struggles that went into building a farming enterprise in the 1980s and '90s. The parent often feels powerless to transfer--along with the title to the farm -- this "hunger" that they felt in their youth. How will their children have the same perseverance, toughness, insight and dedication to the task, when they never really tasted some of the hardships?

Someone said, "Good judgment comes from experience, and experience comes from bad judgment." If you are concerned about whether the next generation has the judgment, skills and hunger to survive some tough experiences, affirmative answers to the following three questions should allay many of your fears.

1. Do they understand finances? In any business, and especially in our capital-intense industry that's highly dependent on uncertain variables such as weather and commodity markets, financially significant decisions must often be made quickly. Family members who understand the income statement, balance sheet and the impact of their decisions on key financial ratios will be better prepared to stay out of trouble.

I know several family businesses that encourage college-bound members to study business, finance or accounting. Their goal is to equip the next generation with skills that will serve them well in any enterprise, including agriculture. Several of my clients have monthly or quarterly meetings with their accountant or lender to review financials as a group. Those advisers spend every day assessing how decisions relate to numbers, and can be an educational resource to the family business.

2. Can they adapt? When we think about what it takes to succeed in business, we often think of discrete knowledge or skill sets like finance, negotiation, supervision, agronomy and animal husbandry. Certainly such technical knowledge is important. However, Claudio Fernandez-Araoz, writing in the June 2014 issue of "The Harvard Business Review," points out that in a volatile world, the more important skill is adaptability: Does one have the potential to adapt to a changing

business environment? He points out there are plenty of smart people who had the right skill set on paper, but who failed in leading a business through change. He goes on to articulate five indicators of one's potential to adapt: The right motivation, curiosity, insight, engagement and determination. Consider how your next generation stacks up to those criteria in other areas of their lives.

3. Do they own decisions? When major financial decisions are being made, what role does the younger generation have in those deliberations? Are they helping to decide when to market grain or livestock? Are they involved in the analysis of your equipment program? Are they at the table when deciding to rent or buy more ground, or purchasing inputs? Do they participate in your tax planning? Those are some of the decisions that contribute to financial stewardship. Involving them in the homework and decision itself not only educates them, but contributes to psychological ownership of the business.

These areas are not exclusive indicators. However, if the next generation understands finances, is able to adapt to change, and owns a share of the decisions about the future, then you are on a good path to transferring the hunger or determination that will lead to family business continuity.

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