



**LANCE  
WOODBURY**

**DO THEY UNDERSTAND FINANCES?**

In any business, and especially in our capital-intensive industry, which is highly dependent on uncertain variables like weather and commodity markets, financially significant decisions must often be made quickly. Family members who understand the income statement, balance sheet and 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 for the family business.

**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 Fernández-Arcoz, 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 skills set on paper but 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.

**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 the equipment program? Are they at the table when you decide to rent or buy more ground, or purchase 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.

# Transfer THE HUNGER

Succession is more than just handing over the business. It's also about passing on the resolve.

I have heard the concern over and over again. The older generation is preparing to transfer responsibilities for the farming operation, 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.

While their 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 stay with the task, when they have never really tasted some of the hardships?

Someone once 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.

Write Lance Woodbury at Family Business Matters, 2204 Lakeshore Dr., Suite 415, Birmingham, AL 35209, or email [lance@lancewoodbury.com](mailto:lance@lancewoodbury.com)