

## Ag Legacy Business Issues

By Caleb Carter, consultant to the Department of Agricultural and Applied Economics in the University of Wyoming College of Agriculture and Natural Resources

**T**ucker knew Janet was really frustrated this time. They had been trying to plan this vacation for months and it kept getting pushed back. His dad promised that they could get away, but every time he brought it up it just wasn't a good time. First, it was too close to spring planting. Now it was too close to harvest. And he knew that shipping and then calving the heifers were also right around the corner.

Tucker had promised his wife and two daughters they would go to Disney Land and have some much-needed time away together. It wasn't that Janet didn't enjoy living on the ranch. It was a lifestyle she had come to enjoy and appreciate. His father was getting older and more and more responsibility was falling to Tucker. While Tucker didn't mind that, he was beginning to realize that there was not a formal plan for dad's transition and that meant there were no good opportunities to discuss what that transition looked like.

The recent passing of Tucker's mom didn't help either. It seems like his dad was even less open about the future, as it only seemed to bring all the feeling back again. On top of that, Tucker's siblings had all moved on and it was becoming apparent, at least to him, that they needed more help to keep things running. It had always been a family operation, so there was no history of hired employees, and not much interest in discussing that as an option.

*How might Tucker help his father develop a more formal process for management and operation of the family ranch?*



### Formalized Management

Formalized management incorporates planning with the use of goals, financial analysis, and other strategic management tools. A formalized management approach allows a family to understand the existing operations, evaluate alternative enterprises, measure past performance, and determine when milestones are reached on the way to fulfilling business goals. The business can also more smoothly undergo a transition like ownership and management succession. Issues can be more efficiently dealt with as they arise and changes made as needed.

Formalizing management is not without obstacles. Some of the barriers to formalizing management in a family-owned agricultural business include:

- **Lack of Trust:** Family members may fear giving up control. Conversely, they may feel an obligation to certain family members or employees. Overall, families must learn to trust each other, appreciate one another's perspectives and skills, and have faith that the process of formalizing management will help the business succeed over time.
- **Difficulty Delegating:** Farm business owners often have little experience delegating responsibility to others. Parents may be uncomfortable relinquishing control or may not appreciate new ideas posed by their children.
- **Lack of Desire:** While many business owners think about possibilities for the future, they rarely document their thoughts or formally share them with others. Farm business owners are accustomed to working alone and often don't give a lot of thought to alternatives for developing cooperation and support with others.

## Strategic Management

While the exact process a family follows to formalize the management of the family farm or ranch may vary, strategic management should follow a framework that answers three questions:

- **Where are we?**
- **Where do we want to go?**
- **How do we get there?**

### **Where are we?**

The first question is “Where are we?” Although there are many ways to respond to this question, in this context we are looking at a couple of factors: the net worth of the business, as well as its strengths, weaknesses, opportunities, and threats in the current environment. This is often referred to as a SWOT analysis.

To determine the net worth of the business it is common to use a balance sheet or statement of net worth. There are a number of resources available for a family to use in developing a statement of net worth, including the online course found at [www.rightrisk.org](http://www.rightrisk.org) called “Getting on Track: Better Management Through Basic Financial Statements”.

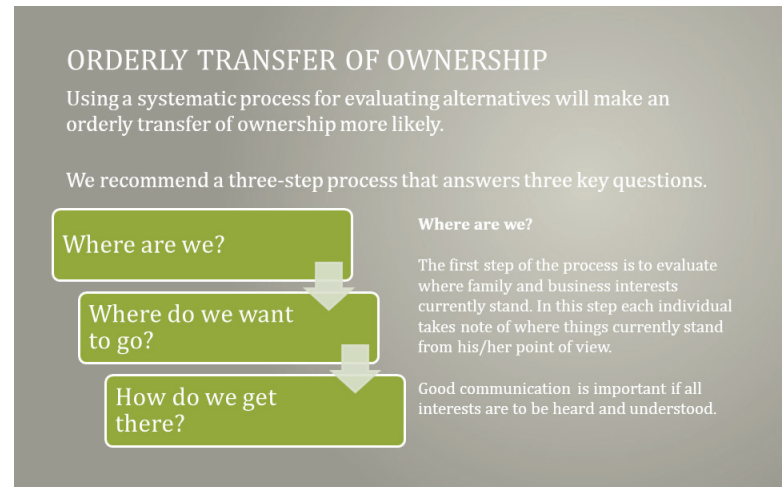
A SWOT analysis will help identify the business’ internal strengths and weaknesses as well as any external opportunities and threats. It involves specifying the objectives of the business and identifying the internal and external factors that are favorable and unfavorable to achieving those objectives. Developing a full awareness of the business’ situation can help with both strategic planning and decision making.

Again, there are many ways to perform a SWOT analysis, but let’s look at it from the perspective of a family-owned farm or ranch:

- **Strengths** are those characteristics of the business that give it an advantage over other businesses. Things that your business or its people do better than others. Examples include a unique climate for growing a certain crop, a person with a unique or uncommon skill or experience, or a strong financial position.
- **Weaknesses** are characteristics of the business that put it at a disadvantage relative to other businesses. It may be that the farm is located in an environment that is hostile for growing crops, products would require shipping long distances to market, or a gap in skills critical to the success of the business.
- **Opportunities** are elements external to the business that can create an advantage for the business. Are there shifts to local demographics that would allow a new product to be sold by the business? Has a new technology created a market for goods and services?
- **Threats** are factors external to the business that could cause trouble for the operation. What obstacles does the business face? Are good employees difficult to find because of new, high paying jobs in the area? What are competitors doing that your business cannot do?

### **Where do we want to go?**

A vision statement, mission statement, and goals are key tools to help describe what you want your business to be like in the future and what you want to achieve. The entire family should be involved in defining the future for the family farm or ranch.



goal \* plan \* success

- **Vision Statement** describes a picture of what the company will look like in the future. It sets the direction for business planning but does not indicate how the business will get there. A vision statement is an internal document used by the people within the business.
- **Mission Statement** is a brief description of the business's fundamental purpose. It focuses on the present state of the business and broadly describes the organization's capabilities, structure, customer focus, and activities.
- **Goals** represent a future ambition of desired results. They should be specific, measurable, achievable, realistic, and time targeted, or SMART. Goal setting is a process for helping people agree on a common future and to know what is expected of them.

### ***How do we get there?***

This question involves identifying and analyzing alternative strategies for achieving the business goals. Families should consider the available resources and identify any additional resources required to accomplish those goals. Finally, management and operational plans, financial budgets, and other documents will be needed as guidelines for managing the farm business and to measure success.

This formal process could include the following steps:

- Brainstorm and select strategies
- Develop a plan
- Implement the plan
- Evaluate results and make changes

### **Communication**

It might be obvious at this point, but effective communication among family members is key to successfully create the path and help everyone move forward together. Lack of effective communication is a root cause of most family business failures. Family members need to know and understand their family attributes, values, and expectations as they relate to the current, as well as future management and ownership structure of the farm. People are likely much more willing to make adjustments if they have the information needed to make informed decisions.

Along with a more formal management strategy, it is also important that the family formalize their communication. This could include holding regular family council meetings, family business meetings, and following a written code of conduct.

Refer to the Ag Legacy module titled *How are you Communicating with the Next Generation?* for more information on effective communication following these methods. You can find it at [aglegacy.org](http://aglegacy.org) under the Modules tab.

### **A Written Succession Plan**

Businesses that formalize management using the three-question framework will experience an easier transition into the future. A formal management process removes emotion from issues that arise and make it easier to evaluate alternatives when the stakes are high. It can offer a road map for a smooth transition from one generation to the next and weave the needs of the family and the business into a single plan.



In order for everyone to see what has been decided and to create formal policies and processes moving forward, the plan must be written down. These may include documents such as a constitution and bylaws, powers of attorney, standard operating procedures, and an employee handbook.

It is also important that the family develop a Code of Conduct to provide a set of rules that guide family members in their personal, business, and family relationships. A well-developed set of rules and policies will reduce the chances of conflicts that challenge those personal and business relationships.



A Code of Conduct should cover:

- **Employment criteria:** Formal, written policies such as an employee manual may be helpful in managing employees. Standard operating procedures ensure consistency in how tasks are done.
- **Compensation:** How family members are compensated is important to everyone. What are the guidelines for establishing salaries, benefits, bonus's, etc.?
- **Exit strategies:** What is the exit strategy if a family member wants to leave the family business?
- **Conflict resolution:** When disagreements arise, what is the process to address it before it negatively affects the family and the business?
- **Distribution of profits policies:** How will profits to be distributed fairly between family members and employees?
- **Vacation/leave policies:** What is the family's policy for when and who can take vacation or sick leave?
- **Loan policies:** Who can and what is the method for family members to take a loan from the family business?

Has your family begun the process of creating these documents? What have you completed? Which of these documents do you believe would be helpful in helping your family begin to formalize your management and goals for the future?

## A Growing Family, A Growing Business

As the family grows by adding daughters and sons, in-laws, and grandchildren, so too the farm or ranch will grow. This can present new and exciting opportunities but can also lead to new and difficult challenges. Involving everyone in discussions about the future and structure of the business can help with the transition. It can also help build the capacity of the business and family to weather the storms that will surely come.

This newsletter was adapted from the online course titled: *Management Succession: Where Are We?* Available at [RightRisk.org](http://RightRisk.org) under Courses. Refer to this course for additional information and a workbook that can help guide the process.



Click to see  
current posts at:  
[AgLegacy.org/news](http://AgLegacy.org/news)

Click to follow us on:



**O**nline modules, including recorded presentations covering how to establish an AG LEGACY and other helpful information on management succession plans are available at our website. For more on upcoming modules, past newsletters, and for other information about Ag Legacy see [AgLegacy.org](http://AgLegacy.org). Requests for additional information may be emailed to [Information@AgLegacy.org](mailto:Information@AgLegacy.org).



**Ag Legacy Newsletter:**  
Contributing Authors -  
Caleb Carter, [calebcarter069@gmail.com](mailto:calebcarter069@gmail.com)  
John P. Hewlett, [hewlett@uwyo.edu](mailto:hewlett@uwyo.edu)  
Editing/Layout - John P. Hewlett, [hewlett@uwyo.edu](mailto:hewlett@uwyo.edu)

 UNIVERSITY  
OF WYOMING  
EXTENSION

*Persons seeking admission, employment, or access to programs of the University of Wyoming shall be considered without regard to race, color, religion, sex, national origin, disability, age, veteran status, sexual orientation, or political belief.*