



Welcome to the Business Issues module.

In this module you will explore the business challenges that family businesses must navigate throughout the transfer process and you will assess your business's formalized management and business communications.



## BUSINESS ISSUES

### In this module you will:

- Learn a strategic management framework that includes identifying and documenting:
  - Where are you?
  - Where do you want to go?
  - How can you best get there?
- Identify business management tools that will assist you in answering the three strategic management questions
- Identify communication tools to consistently communicate about business issues within the family and the business
- Assess how well your business currently uses the strategic management framework presented
- Assess how well your business currently manages business communications



2

Formalized management incorporates planning with the use of goals, financial analysis, and other strategic management tools. Formalized management 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.

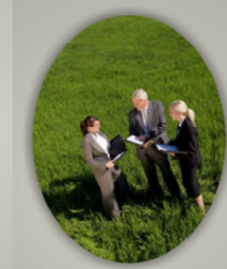
In this module you will learn about formalized management processes and tools that will help you navigate ownership and management succession.



## FORMALIZED MANAGEMENT

Some families are hesitant to formalize the management of their farm businesses.

Yet, having formal processes in place can help the business grow and change more smoothly, prevent and manage conflicts, and reach business goals.



Formalized management includes:

- Business planning
- Implementation of a strategic management framework
- Evaluation of progress toward goals

3

Transitioning a family farm business from the founding generation to the next generation may be thought of like taking a trip. The family needs to clearly know where it is - the starting point, where it wants to go - the destination, and how it can best get there - the journey.

By formalizing the management of the business, the family can more smoothly undergo a transition like ownership and management succession. Goals can be set, milestones determined, and progress evaluated more easily. Issues can be more efficiently dealt with as they arise and changes made as needed.

Instructor: Ask the participants if anyone has a business education background. Then point out, that will help. Also state that we do have resources to help whether or not you have a formal education in business. The key thing, is to formalized your *management* of the business.



## OBSTACLES TO FORMALIZED MANAGEMENT

Lack of Trust

Difficulty Delegating

Lack of Desire

### **Lack of Trust**

Family members may struggle with fear of giving control to other family members, in-laws, or employees. Conversely, they may feel an obligation to certain family members or employees.

Overall, families must trust (or 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.

4

Few people are able to instinctively formalize the management of their family farm business. Sometimes it is advisable to bring in an outside consultant to help. There are many barriers to formalized management in family-owned agricultural businesses.

Instructor: Click through the three barriers, discussing each one.

### **Lack of Trust**

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Overall, families must trust (or 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



## OBSTACLES TO FORMALIZED MANAGEMENT

Lack of Trust

Difficulty Delegating

Lack of Desire

### Difficulty Delegating

Farm business owners often have little experience delegating responsibility to others. Entrepreneurial fathers may especially have trouble delegating to their sons. Parents may be uncomfortable relinquishing control or may not appreciate new ideas posed by their children.

5

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## OBSTACLES TO FORMALIZED MANAGEMENT

Lack of  
Trust

Difficulty  
Delegating

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### **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 think about how to elicit cooperation and support from others.

6

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## OBSTACLES TO FORMALI

"I spent my time running the ranch. Who has time to write a bunch of documents?"

I had nothing to go on to figure out what Dad's plans were for the business. I had to piece things together by talking to each of his friends and advisors. There were still gaps in what I knew, but I had to move on and fill them as best I could. I intend to write my plans down in case anything should happen to me.



JOE & GRAHAM

7

Instructor: Click once to display Joe comment. Click again to display Graham's.

Ask: What obstacles do you see presented in these statements?

Transition: Let's look at components of a formalized management plan.



## STRATEGIC MANAGEMENT

### Strategic Business Plan

#### Where Are We?

Answering this question involves determining the net worth of the business in addition to the strengths, weaknesses, opportunities, and threats in the current business environment.



8

Strategic management involves many techniques. Some techniques will work better for some family businesses while other techniques will be more appropriate for others.

Whichever techniques you use, strategic management should follow a specific framework that answers three questions: where are we; where do we want to go and how can we best get there.

Instructor: Click to discuss each question that should be answered in a strategic business plan: Where are we?, Where do we want to go?, How can we best get there?





## STRATEGIC MANAGEMENT

### Strategic Business Plan

#### **Where Do We Want to Go?**

This question pertains to vision, mission, and goal of the business. The entire family should be involved in defining the desired future for the family farm business.





## STRATEGIC MANAGEMENT

### Strategic Business Plan

#### How Can We Best Get There?

This question involves identifying and analyzing alternative strategies for achieving the business goals. Families should consider the resources available to the business and identify additional resources required for the business to succeed.

Finally, management and, operational plans, financial budgets, and other documents will need to be developed as guidelines for managing the farm business and measuring successes.



10

Transition: So how do we answer each of these questions? Let's start with "Where are we?".



## WHERE ARE WE?

A statement of net worth is a summary of all assets and liabilities of the business and the owner's equity at a specific point in time.

Farm Balance Sheet	
<u>Current Assets</u>	<u>Current Liabilities</u>
<ul style="list-style-type: none"><li>Cash = \$500</li></ul>	<ul style="list-style-type: none"><li>Accounts Payable = \$130</li><li>Bank Loan = \$224 (Hoop House)</li><li>Van Loan = \$2,400 (Joanie's Dad)</li><li>Property Taxes = \$30</li></ul>
Total = \$500	Total = \$2,784
<u>Non-Current Assets</u>	<u>Non-Current Assets</u>
<ul style="list-style-type: none"><li>Land (10 acres) = \$8,400</li><li>Hoop House = \$720</li><li>Van = \$8,500</li><li>Ewes = \$545</li><li>Shed = \$675</li></ul>	<ul style="list-style-type: none"><li>Bank Loan = \$376 (Hoop House)</li><li>Van Loan = \$4,000 (Joanie's Dad)</li></ul>
Total = \$18,840	Total = \$4,376
Total Assets = \$19,340	Total Business Liabilities = \$7,160
	Business Net Worth = \$12,180

11

It can be quite difficult to determine the future if you do not know the starting point. Thus, the first question one should ask is “where are we?”

From a financial perspective, the balance sheet or statement of net worth is a commonly used tool to answer this question.

There are a number of resources available for a family to use in developing a statement of net worth, including the on-line course found at [www.rightrisk.org](http://www.rightrisk.org) called “Getting on Track: Better Management Through Basic Financial Statements”.

Instructor: Briefly point out the areas of the Balance Sheet and the Net Worth. If internet access is available, navigate to the website to show the location of the recommended course for more information on financial statements.



## WHO ARE WE?, CONT.

SWOT stands for:

- Strengths
- Weaknesses
- Opportunities
- Threats

	STRENGTHS	WEAKNESSES
INTERNAL ENVIRONMENT		
EXTERNAL ENVIRONMENT		
	OPPORTUNITIES	THREATS

12

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

Instructor: Each quadrant displays over the next four slides in detail.

Transition: Let's begin with Strengths.



## WHO ARE WE?, CONT.

- Internal Environment
  - Strengths...

	INTERNAL ENVIRONMENT	EXTERNAL ENVIRONMENT	
INTERNAL ENVIRONMENT	STRENGTHS	WEAKNESSES	
EXTERNAL ENVIRONMENT	OPPORTUNITIES	THREATS	

### STRENGTHS

Strengths are those characteristics of the business that give it an advantage over other businesses. They are things that your business or its people do better than others.

Examples include a unique climate for growing certain crops, a person with a unique or uncommon skills or experience, access to special markets, high employee morale, or a strong financial position.

13

Discuss the content as shown.



## WHO ARE WE?, CONT.

- Internal Environment
  - Weaknesses...

	STRENGTHS	WEAKNESSES
INTERNAL ENVIRONMENT		
EXTERNAL ENVIRONMENT		
	OPPORTUNITIES	THREATS

### WEAKNESSES

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, that products would have to be shipped a very long ways to market, or a gap in skills critical to the success of the business.

Discuss the content as shown.



## WHO ARE WE?, CONT.

- External Environment
  - Opportunities...

	STRENGTHS	WEAKNESSES
INTERNAL ENVIRONMENT		
EXTERNAL ENVIRONMENT	OPPORTUNITIES	THREATS

Opportunities are elements external to the business that can be exploited to the advantage of the business. Are there shifts to local demographics that would allow a new product to be produced and sold by the business? Has a new technology created a new market for your goods and services?

These are some examples of opportunities.

**OPPORTUNITIES**

Discuss the content as shown.



## WHO ARE WE?, CONT.

- External Environment
  - Threats...

	STRENGTHS	WEAKNESSES
INTERNAL ENVIRONMENT		
EXTERNAL ENVIRONMENT	OPPORTUNITIES	THREATS

Threats are elements external to the business that could cause trouble for the business. What obstacles does your 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? These are examples of threats.

### THREATS

Discuss the content as shown.





## WHERE DO WE WANT TO GO?

### Vision Statement



A vision statement may be considered a picture of what the company will look like in the future. The vision statement sets the direction for business planning, but it does not indicate how the business will get there. A vision statement is an internal document used only by people within the business.

17

A vision statement, mission statement, and goals are the key tools to help you determine what you want your business to be like in the future and what you want to achieve.

Instructor: click through to display each description of the Vision Statement, Mission Statement, and Goals.



## WHERE DO WE WANT TO GO?

### Mission Statement



A mission statement is a brief description of the business's fundamental purpose. The mission statement focuses on the present state of the business and broadly describes the organization's capabilities, structure, customer focus, and activities.



## WHERE DO WE WANT TO GO?

### Goals



Goals are statements which represent a future ambition or desired result. 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 CAN WE BEST GET THERE?



20

To answer the last question, families must develop some formalized business plans for how they will achieve their business goals. This is a process to develop plans to achieve your business goals.

Instructor: Click to display information for each process step over the next four slides.



## HOW CAN WE BEST GET THERE?



### **Brainstorm and Select Strategies**

The first step is to define and evaluate alternative strategies for achieving the family's goals. Strategies are the actions the business will take to reach its goals. There will likely be many possible strategies, so the family should brainstorm as many possibilities as they can. They can then evaluate each one and select the most feasible alternatives.

21

Instructor: Discuss the this process step.



## HOW CAN WE BEST GET THERE?



### **Develop a Plan**

The next step is to develop a plan for incorporating the selected strategies into the business. When doing this, you need to consider the variables documented in the tools that helped you to answer the previous two questions (ex: vision and mission statements, SWOT analysis, financial statements, etc.) You will also need to identify the resources required execute the plan and whether you have them or can obtain them.

22

Instructor: Discuss the this process step.



## HOW CAN WE BEST GET THERE?



### **Implement the Plan**

Implementing the plan means putting the plan into action. It sounds like an easy step; however, one of the keys to success is good communication. Everyone involved in the implementation needs to understand the plan and what their role is in it. They have to know what is required from them and how success will be measured.

23

Instructor: Discuss the this process step.



## HOW CAN WE BEST GET THERE?



### **Evaluate Results & Make Changes**

All plans should be regularly evaluated and appropriate changes made in order to ensure success. Issues between people, changing availability of resources, and emerging threats and opportunities will need to be dealt with. A well thought-out plan will aid in addressing such issues and identifying when changes need to be made to adapt to changing circumstances.

24

Instructor: Discuss the this process step.





## SUCCESSION PLANS

- It is important to have a plan of sufficient length. Some plans are completed in just a few years, while other families will need a transition plan to be in place for a decade or more.
- It is important that the family develop a formal plan for transitioning the farm business to the next generation. The plan should include milestones for reaching specific objectives and when certain actions will be taken.

I intend to begin working on a succession plan for the next generation of the business. I want to make sure that the next time we have to transition management responsibilities we can do it in a controlled way that will set us up for future success.



25

A formalized succession plan is a document that defines how ownership and management transition will occur. It seeks to combine the needs of the family and the business into a single plan.

Businesses that formalize management using the three question framework described will experience a smoother journey into the future. Having formal processes in place removes emotion from the issues that arise and makes it easier to make good decisions when the stakes are high. It also sets up a smooth transition from the one generation to the next.

Instructor: Click to see Graham's comment.



## POLICIES

It is important for farm families to have written policies when transitioning the farm from one generation to the next.

Family  
Constitution

Legal  
Documents

Operational  
Policies

### Family Constitution

A great idea is for families to record their plans in a family constitution. This is a series of statements that describes the family's shared values and policies in relation to the business. It should codify the family's goals, management philosophy, and which family members will own and manage the business.

26

Another tool that can help a business determine how to best get where it wants to go is written policies.

These include documents such as a constitution or bylaws, powers of attorney, standard operating procedures, and an employee handbook.

Instructor: Click through the next two slides to discuss the different kinds of policies a family business might have.



## POLICIES

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Family  
Constitution

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Operational  
Policies

### Legal Documents

There are a number of necessary legal documents for the business and family members. The business may need a constitution and/or bylaws if it is incorporated. Powers of attorney and other documents will be needed to authorize people to act on behalf of the business. The family's attorney may suggest that everyone have a will, living will, and an advanced health care directive.



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Operational  
Policies

### **Operational Policies**

The business may find it beneficial to have some procedures more formalized. Having operational procedures in a written format allows everyone to know how things are done and what the process is for resolving issues. For example, an employee manual may be helpful in managing employees. Standard operating procedures ensure consistency in how tasks are done.



## FORMALIZED MANAGEMENT ASSESSMENT

**FORMALIZED MANAGEMENT**

**FINANCIAL STATEMENTS**

Our business completes and updates a full set of financial statements at least quarterly.	Our business completes and updates some financial statements once a year or less often.	Our family business does not have a complete set of financial statements.
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7      6      5      4      3      2      1

**CONTINUE**

29

**STATE:** We'll now take an assessment to evaluate how well your family has formalized your business management. Read the statements carefully and rate your level of agreement between 1 and 7, with 1 being strongly disagree and 7 being strongly agree. Once you have rated all the statements in the section sum up your entries

**INSTRUCTOR:** Hand out the Formalized Management Assessment from the PDF file found in the Resources Section of the course under Assessments. Give participants several minutes to complete the assessment and total their scores. When they have completed the assessment go to the next slide to reveal the scoring feedback.



## FORMALIZED MANAGEMENT ASSESSMENT



Green (215 – 301) Congratulations! Your formalized management score is strong and suggests a high chance of a successful business transition.



Yellow (129 – 214) Caution! Your formalized management score indicates improvement is needed to increase the chances of a successful business transition.



Red (0-128) Alert! Your formalized management score indicates attention is needed to increase the chances of a successful business transition.

**INSTRUCTOR:** Review what the scores on the Formalized Management Assessment reveal about the business being evaluated.



## MANAGING BUSINESS COMMUNICATIONS

Lack of effective communication among family members is the root cause of most family business failures.

Some tools that you can use to communicate about the family business include:

- Family Council Meetings
- Family Business Meetings
- Code of Conduct

There may be benefits to using an outside expert to facilitate family business meetings or at least to help get them started. Look for someone who specializes in family businesses and understands their unique dynamics.



Source: Canadian Farm Business Management Council, *Managing the Multi-Generational Farm Family*, CFBMC 2006.

31

Lack of effective communication among family members is the 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 and future management and ownership of the farm. People are and will be planning their lives and they need information to make informed decisions.

Instructor: Ask the class for examples of the tools they use now.

Transition: Let's discuss some tools you can use to formalize business communication.



## FAMILY COUNCIL MEETINGS

- Allows all family members an opportunity to learn about the family business
- Addresses family issues that impact the business and business issues that impact the family
- Include spouses, in-laws, children, grandparents, grandchildren, etc.
- Held annually



32

Family Council Meetings are intended to provide a communication forum to keep the broader family informed of what is going on in the family business, as well as the current and anticipated role of the family in it. These meetings are typically comprised of the broader family, including spouses, in-laws, children, grandparents, and grandchildren, whether active or non-active in the family business. Family council meetings are typically held on an annual basis.

Instructor: Ask if anyone has family council meetings, and how often.

Transition: While a family council includes all family members, a business meeting would include only those members working in the business.





## FAMILY BUSINESS MEETINGS

- Only family members who work in the business attend
- Forum to discuss family issues including:
  - Roles and responsibilities of family members
  - Interactions between family and the business
  - Ownership of the family farm
  - Business management issues are NOT discussed in this meeting
- Opportunity to communicate with family members who are active in the business about business issues that affect the family and family issues that affect the business
- Family Business Meetings are not intended to replace regular business or management meetings



Family Business Meetings are dedicated meetings for family members who are working together in the business to deal with the interaction between the family and business.



## CODE OF CONDUCT

Employment Criteria

Compensation

Exit Strategies

Conflict Resolution  
Process

Distribution of  
Profits Policies

Vacation/Leaves  
Absence Policies

Loan Policies  
(terms and conditions)

### Employment Criteria

The business may find it beneficial to have some procedures more formalized. Having operational procedures in a written format allows everyone to know how things are done and what the process is for resolving issues. For example, an employee manual may be helpful in managing employees. Standard operating procedures ensure consistency in how tasks are done.

34

The family business “code of conduct” is intended to provide a set of rules to guide family members in their personal, business, and family relationships. A well-developed set of rules and policies will reduce the chances of having conflicts that challenge personal and business relationships.

Instructor: Click to review the kinds of policies that should be included in a family business code of conduct (for this and the next six slides).



## CODE OF CONDUCT

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Process

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Profits Policies

Vacation/Leaves  
Absence Policies

Loan Policies  
(terms and conditions)

### **Compensation**

Compensation policies define the family business's philosophy and strategy in respect to compensation for family members and other employees of the business. It may include policies on salaries, benefits, bonuses, perks, housing, use of business property, and future ownership and management plans.



## CODE OF CONDUCT

Employment Criteria

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Loan Policies  
(terms and conditions)

### **Exit Strategies**

Exit strategies define how to handle the process of a family member leaving the business.



## CODE OF CONDUCT

Employment Criteria

Compensation

Exit Strategies

Conflict Resolution  
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Distribution of  
Profits Policies

Vacation/Leaves  
Absence Policies

Loan Policies  
(terms and conditions)

### **Conflict Resolution Process**

All family businesses experience disagreement and conflict. Agreeing on how to manage conflict is essential.

Left unattended, conflict will negatively impact the business and relationships.



## CODE OF CONDUCT

Employment Criteria

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Exit Strategies

Conflict Resolution  
Process

Distribution of  
Profits Policies

Vacation/Leaves  
Absence Policies

Loan Policies  
(terms and conditions)

### **Distribution of Profits Policies**

It is important that everyone involved in the business know and agree on how profits will be distributed up front.



## CODE OF CONDUCT

Employment Criteria

Compensation

Exit Strategies

Conflict Resolution  
Process

Distribution of  
Profits Policies

Vacation/Leaves  
Absence Policies

Loan Policies  
(terms and conditions)

### **Vacation/Leaves/Absence Policies**

Vacation time, holidays, and other leave policies should be well defined and easy to understand.

There are enormous benefits to implementing a fair and solid leave policy.



## CODE OF CONDUCT

Employment Criteria

Compensation

Exit Strategies

Conflict Resolution  
Process

Distribution of  
Profits Policies

Vacation/Leaves  
Absence Policies

Loan Policies  
(terms and conditions)

### **Loan Policies (terms and conditions)**

It is not unusual for family members to borrow money from a family business.

Loan policies should be established to treat everyone fair.





## BUSINESS COMMUNICATION ASSESSMENT

**FAMILY COMMUNICATION**

**FAMILY COUNCIL MEETINGS**

{ We conduct regular meetings to communicate with the extended family about the business on a regular basis. }	{ We have conducted meetings to communicate with the extended family about the business, but not on a regular basis. }	{ We do not conduct meetings to communicate with the extended family about the business. }				
○	○	○	○	○	○	○
7	6	5	4	3	2	1

**CONTINUE**

41

**STATE:** We'll now take an assessment to evaluate how well your family has formalized your business communications. Read the statements carefully and rate your level of agreement between 1 and 7, with 1 being strongly disagree and 7 being strongly agree. Once you have rated all the statements in the section sum up your entries

**INSTRUCTOR:** Hand out the Business Communication Assessment from the PDF file found in the Resources Section of the course under Assessments. Give participants several minutes to complete the assessment and total their scores. When they have completed the assessment go to the next slide to reveal the scoring feedback.



## FORMALIZED MANAGEMENT ASSESSMENT



Green (45 – 63) Congratulations! Your business communication score is strong and suggests a high chance of a successful business transition.



Yellow (27 – 44) Caution! Your business communications score indicates improvement is needed to increase the chances of a successful business transition.



Red (0-26) Alert! Your business communications score indicates attention is needed to increase the chances of a successful business transition.

**INSTRUCTOR:** Review what the scores on the Business Communication Assessment reveal about the business being evaluated.



## MODULE SUMMARY

### Key points to remember:

- A strategic management framework that addresses three basic questions can help formalize the management of your business:
  - Where are we?
  - Where do we want to go?
  - How can we best get there?
- Use tools, such as a balance sheet and a SWOT analysis to help you understand where you are.
- A vision statement, mission statement, and formalized goals will help you determine here you want to go.
- Formal business plans will help you determine how to best reach your goals. Use a sound process to develop the best plans that you can.
- Communicate with the family about the business through regular meetings and a written code of conduct.

43

This is the end of the Business Issues module. In this module you learned about tools and techniques for formalizing the management of your business, including ways to formalize business communications within the family.

Review the key points listed on screen, and then transition to next module.

Transition: Next we'll look at the overall process to managing succession.