FARM LIVING

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Dick Wittman told a recent farm business management seminar that a multi-partner farm enterprise needs a mission statement if it's going to succeed. The partners must also be willing to regularly discuss their goals. (WP photo by Barbara Duckworth)

Planning for farm success

By Barbara Duckworth
Calgary bureau

Many multi-partner farms fail because members do not commit to a business plan, cannot get organized, do not divide responsibilities or pay out money fairly.

OLDS, Alta. — A farm's management style may determine whether a child returns to the family business or walks away with a pocketful of resentment.

"The farm is your children's first business school," said Dick Wittman.

Most people know how to manage a farm in theory, but few have the discipline to write operating plans or encourage open communication among partners, said the Idaho-based farm consultant. Wittman farms 14,000 acres with a brother and cousin.

"Every farm has a management system. It may be lousy but it's there," he told farmers gathered at Olds College for a farm business management seminar.

A willingness to co-operate and stay disciplined has seen the Wittman family through a reasonably smooth transition when their father moved off the farm in 1984 and later when a brother died.

Naysayers told them they could never make a family deal last. Siblings may work well together but when spouses and children become involved, the operation is liable to collapse.

Wittman said there are basic steps to make a multi-partner farm enterprise work.

The first is to establish a mission statement for the business.

"How can a team pull together without a clear consensus on basic objectives on the farm?"

It can be a short sentence but it should state the operating philosophy and core values of those involved.

For many, the fundamental goal is to build a profitable business where the partners do not end up hating one another. Many multi-partner farms fail because members do not commit to a business plan, cannot get organized, don't divide responsibilities or pay out money fairly.

Plans must be talked through and accepted by all concerned people. They must agree to bring in outside help like lawyers, accountants or farm advisers.

Someone must have the authority to make final decisions. The president of the operation is not necessarily the oldest son.

"Management is not always making decisions. It is deciding who will decide," said Wittman.

A good manager must divide responsibilities and give people enough leeway to make decisions regarding their area of the business. Wittman's family drew up a flow chart of management duties as well as a standard operating procedures manual and job descriptions. Performance reviews of people and progress reports are part of the farm's strategy.

People's roles should take advantage of each individual's abilities and skills. In addition, less desirable tasks are divided evenly rather than dumped on one person.

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— Dick Wittman, Idaho farm consultant

People must be accountable to the business and even though they are family members, must understand they can still be fired.

Too many bosses

Some operations like to manage by committee where everyone participates in decision making. Wittman said this is inefficient and can lead to poor results.

"We throw together a group of half-educated people and we get a half-assed decision," he said.

Management is responsible for setting the tone of the business. A good manager outlines expectations including a ban on temper tantrums, unprofessional or destructive behaviour.

Meetings are important because if any family member or spouse feels he or she does not have all the information about decisions or finances, the result is resentment and conflict.

Everyone should be invited to write out what their understanding is of procedures on the farm. They should explain who they think pays for housing, vehicles and utilities. Salaries, hours of work and vacations must be discussed. Finally, the farm procedures and policies should be written and a copy given to everyone.

"Usually people don't have any problem with following policy if it is written," he said.

Hours of work and money are often the most contentious issues on a large operation.

Wittman's family bases hours of work on an individual working 270 days a year. Time sheets are kept and salaries are calculated according to hours worked, level of responsibility and tenure on the farm.

Wages often cause disputes. There may be an inequity between the owners' children and outside hired help. However, the family may pay its own children more as part of a succession package.

Labour is part of a farm's cost of production.

"Most farmers fail because they don't understand cost of production and what it costs to keep their families on the farm."

They take for granted costs like housing, medical insurance, vehicles, utilities, fuel, free meat and farm produce. On many farms these are paid for by the enterprise, making it a disguised form of compensation over and above what is paid as salary.

Dividing returns among managers and owners can be difficult. Figure out non-cash benefits such as housing and vehicles, and then figure out what the ownership share should be based on responsibility and tenure.

Many operations split money evenly among managers and owners but then there is little incentive to invest further in the farm because there is no real return on investment or incentive to try harder.

Another common mistake is grossly underpaying workers and giving all the earnings to the owners.

Agreements are also necessary to deal with the unexpected.

If a partner dies or develops a disability or illness, care of that person's family is necessary. Some operations cut them off while others feel guilty and pay too much. Figure out what the survivor benefits should be and give them time to figure out what to do. Some may elect to sell the spouse's share or continue to play an active role in the family business.

Cost of decisions

A written budget defines how money matters are handled and anticipates results at the end of the year. It is important to figure out the dollar implication of each decision in terms of profits, debt and working capital.

Successful operations can actually have excess cash.

"If the business doesn't need the money, you shouldn't feel guilty taking it out," he said.

Strategic plans are needed. More abstract and flexible than yearly operating plans, a strategy helps the farm contemplate its future growth, estate and succession questions, buyouts, alliances, retirement plans or value-adding ventures.

He suggests making small do-able plans that fit into the larger farm plan.

Retirement plans are a critical strategic issue.

Parents may fear their children will squander everything they worked for, leaving little for retirement. They may also feel unwanted, so serving as consultants is valuable.

Prior to retirement, parents should figure out their personal worth and what is needed to retire as well as new expenses like buying a house in town, medical costs and a vehicle. Calculate the value of property as well as sources of income and how much is paid in tax.

Wittman said the future of farming is planning, knowing the numbers, communicating and seeking outside help.

Farm families should realize it is more costly to break up a business after a major family battle than pay for professional advice for planning, record keeping or other services.