

Vegetable Industry Development Program



A smooth transition - navigating your way through the family business

Family businesses in the vegetable industry can be highly effective, efficient and profitable. A family business can provide a happy and productive place for family members to build a career, teach others and eventually retire and transfer responsibility and assets to others.

This will only happen if some planning is done to make the process of transition work well.

One of the keys to achieving a successful transition is having the right business processes and structures in place. This fact sheet describes the processes and structures required to facilitate a smooth transition for everyone.

This fact sheet covers the following topics:

- People management and leadership
- Business structure
- Profitability

People Management and Leadership

The most important resource in any business is the human resource. This is just as important in a family business, as in any other business. Why treat your family members any less than you would an employee?

A few simple processes can ensure everyone (family members and others) is heading in the same direction and knows where they and the business are going.

These processes include:

- **Clear roles and responsibilities** – ensure everyone working within the business has a clear understanding of their role and responsibilities. Write it down and discuss it so that everyone knows what is expected of them. Provide a clear

pathway to increased responsibility. A tool to assist in developing clear roles and responsibilities can be found at: http://www.makingmorefromsheep.com.au/capable-confident-producers/tool_4.1.htm

- **Regular reviews** – a semi formal meeting should be held with every person in the business, at least once a year. At this time, review their aspirations, training needs, ideas for business improvement, role and responsibilities, and remuneration. Review family members' progression along the pathway to increased responsibility.

Key Messages

- Good business processes and structures are required to facilitate a smooth transition.
- Each member of the family business needs a clearly defined role and responsibility, with agreed expectations about what is required to progress through the business.
- Effective business structures are needed to ensure everyone is rewarded fairly for their contribution to the business and to provide an effective vehicle for easy transition of management and ownership of the business.
- Planning for business growth is an essential element of a succession plan. Your objective is to have a business of sufficient scale and profitability that can fulfil the needs and aspirations of multiple generations and/or families.



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- **Supervision and mentoring** – everyone needs to be guided, trained and given support throughout their working lives. This includes the family members within your business! Develop a relationship where managers and supervisors listen to their staff and provide advice when it is needed.
- **Team work** – everyone in the business needs to work as an effective team. Effective teams have:
 - An agreement on how they will work together
 - Honest discussions when behaviour is not acceptable
- **Family/Business meetings** – good communication is essential throughout the working team and family. Regular meetings (at least twice a year) are required to deal with decisions about the long-term future of the business and each members' role within it. Hold this meeting outside the home and, if necessary, get away from the workplace so that everyone can give it the attention it deserves and avoid falling into their traditional family roles. A fact sheet on running family meetings can be found at: http://www.grdc.com.au/uploads/documents/GRDC_FS_SuccessionPlanning.pdf?shortcut=1

These simple processes facilitate transition because everyone is clear about the roles and responsibilities, which need to be fulfilled to make the business successful. They can see their place within this system and understand how they need to develop to fill the role of others, as they transition through the business.



Business Structure

Effective business structures are needed to ensure everyone is rewarded fairly for their contribution to the business and to provide an effective vehicle for easy transition of management and ownership of the business.

Reward should always be based on contribution.

Clearly defining the different types of contribution required can facilitate the transition process.

There are three areas where it is important to have clarity:

- Labour and management
- Capital
- Profit

Labour and Management

Are your family members simply working in the business under direction (labour), or taking responsibility and making decisions (management)? There is a difference! Thus, the rewards should also differ.

Younger family members often only provide labour when they commence in the business, but they will need to develop and take on more responsibility as they progress through the business and their remuneration should reflect this development over time.

Regular and honest discussions about roles and responsibilities and remuneration should ensure people are fairly rewarded. It is very important in family businesses to reward people adequately and avoid making promises of rewards in the future. This can lead to disputes in the future, which hinder transition.

Capital

All businesses need capital to operate. Agriculture is capital intensive, i.e. there is often a lot of capital invested in land and infrastructure, and plant and equipment. Those family members who contribute this capital should receive an agreed return on their capital contribution.

A business structure that allows for different people to contribute different amounts of capital and be rewarded appropriately for this investment can facilitate transition, when complemented by a system that rewards labour and management separately.

Profit

Business profit is the amount leftover after accounting for operating costs and providing the agreed rewards for family members' labour, management and capital. This profit should be split between the business owners based on a written agreement between the owners.

Development of effective business structures may require advice from accountants, lawyers or business consultants. These professionals can provide advice on taxation implications, legal structures, wills, power of attorney and life insurance. Ensure when this work is done that you develop effective business structures which provide clear rewards.

Profitable Business

To enable the people in the business to be rewarded, the business must be profitable. A prosperous business must be growing and adapting new technologies.

This is especially so if the business is required to support multiple generations and/or families. Some key questions to ask yourself and seek professional advice on are:

- Are the rewards provided by the business for labour, management and capital sufficient to support the families that rely on the business for their income?
- If an older generation is to “retire” and “handover” to a younger generation:
 - Is the business profitable enough to provide sufficient reward for the older generations’ capital to sustain their needs and aspirations?
 - Will the business still provide sufficient reward to the younger generation to sustain their needs and aspirations, after rewarding the older generation for their capital?
 - Is the business profitable enough to afford to “buy-out” the older generation and/or any non farming siblings?

To remain profitable, all businesses must be open to innovation and change and be prepared to improve skills.

A process for continual business improvement can be found at: http://www.makingmorefromsheep.com.au/capable-confident-producers/procedure_4.4.htm

There are no golden rules, which mandate what these rewards should be. Often rewards that are seen as “non commercial” or below standard industry rates are sufficient to meet needs and aspirations. However, families need to form an agreement on what is appropriate for them and their business and write it down.

Thus, planning for business growth is an essential element of a succession plan. Your objective is to have a business of sufficient scale and profitability that it can fulfil the needs and aspirations of multiple generations and/or families.

Summing Up

If the people management and leadership, business structure and profitability are well established, family members will be able to enter the business, grow and develop while they are there and leave in a way which maintains relationships and profitability.

The example on the next page demonstrates how this can happen.

Learn More

If you would like to read further information on:

- how to get the best out of your accountant
- what a succession agreement looks like
- how to find a useful facilitator
- the difference between management succession and estate succession, or
- setting up an advisory board

let your state vegetable association or the InnoVeg sub-program know so they can obtain and tailor this information to your needs. Alternatively the Grains Research and Development Corporation (GRDC) has funded the development of a guide suitable for any farming family planning the future of their business. A Guide to Succession: Sustaining families and farms is a factual booklet that includes practical examples and case studies, checklists and decision making tools. To access go to:

http://www.grdc.com.au/director/events/grdcpublications?item_id=9A81C1880E68D64D1BFE095A223E4E4D&pageNumber=1

Sometimes reading a fact sheet just isn't enough. If you would like to work through some of these issues one-on-one or in a group please contact Kristen Stirling from the InnoVeg sub-program on 03 9882 2670 or at kristens@rmcg.com.au to discuss what options are available.



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The Jones Family

Brian and Sue Jones are in their mid 50's. They have a son and a daughter assisting on the farm. Their daughter Claire is 24 and manages the packing and marketing side of their business, which focuses on the production of sweet corn. Their son Richard (23) manages production.

Brian and Sue would like to work part time and travel for three months of the year. They would also like to free up some of their capital they have tied up in the land to put into their superannuation.

They agree as a family on the following changes:

REQUIREMENTS	PREVIOUS ARRANGEMENTS	NEW ARRANGEMENTS
People Management and Leadership		
Clear roles and responsibilities	Brian has always enjoyed growing the sweet corn, but left packing and marketing to Sue. Richard and Claire work with their mum and dad, doing what is required at the time with no specific role or responsibility.	Brian and Sue will take a more strategic and visionary role and be less "hands on", whilst Richard will become the production manager and Claire the marketing manager.
Regular reviews	The family chat openly about how the business is going, but struggle to really review their individual performance. After all, "we are family!"	Brian and Sue have agreed to sit down with each of Richard and Claire individually three times a year to discuss how they are going. Sue will ask a friend, who is a human resource manager in a large company for advice.
Supervision and mentoring	Brian is pretty good at telling everyone what to do, but Richard and Claire would love him to stop and explain "why" a little more often.	"Why?" has become an acceptable question and Sue will support Brian by trying to record his answers to help develop a written record of their experience.
Team work	They all get on well and work together. Both Richard and Claire have had opportunities to work elsewhere, but they have chosen to work within the family business.	They all agree the team is great and the proposed changes are about helping it to continue this way.
Family meetings	They seem to happen all of the time around the dinner table, but they do seem to avoid the "hard" questions.	They have agreed to go away for a weekend each year during a planned break in production to review business performance and discuss their long-term goals.
Business Structure		
Labour and management	Everyone has been living off a set figure of drawings per month, but Brian and Sue have bought cars for both Richard and Claire.	Brian and Sue will be paid \$30,000 by the business, whilst Richard and Claire's share of the drawings will be increased and converted to a wage, once they have met with their accountant and worked out how much the business can afford.
Capital	There is no differentiation.	The family have agreed to discuss this next year, after they see how the new arrangements go, but ultimately Brian and Sue would like Richard and Claire to lease the business from them to fund their retirement. Brian and Sue have agreed to leave their assets to Richard and Claire, upon their death.
Profit	They live well, but other than the tax statements do not really know how profitable the business really is.	They agreed to discuss this next year too. If Richard and Claire lease the business from Brian and Sue, then the profit would be shared between Richard and Claire based on a written agreement.
Profitability		
Prosperous business	The business has got them this far!	They recognise they need to increase the profitability and scale of the business in order to provide an income for all.



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