

MANAGING THE FARMING FAMILY

The pressures of running a farming business have increased substantially over the past few years resulting in tension in many families often leading to communication breakdown, misunderstanding, frustration and possibly divorce.

The increase in land prices and working capital together with a volatile market-place calls for a new style of management to effectively deal with the risks of things going wrong. Whether it is a health and safety issue or just family break up it is often very expensive and should be avoided.

Bank managers also confirm that lending margins are likely to be higher in the future, as many lenders say they will increase base charges on assessed trading risk rather than asset value. Therefore, businesses that have identified and quantified their risks with associated mitigation strategies, regularly managed by a cohesive family team, may be able to negotiate better borrowing in the future.

Risk management and regular family meetings can prove a worthwhile investment and often result in increasing profitability. In addition to day-to-day production, the biggest challenges facing farming families include:

- Communicating effectively within the family.
- Dealing with generational differences such as father-son relationships.
- Managing the expectations of the non-farming siblings.

It is difficult for families and individuals to deal with these pressures without some form of logical structured approach and there are several tools available:

FAMILY AGM

Most larger agribusinesses and farmer-owned cooperatives have regular management meetings and pro-actively manage their risks through a risk register and many larger family farms could benefit from adopting this strategy.

Changes do require an initial impetus and this is usually driven by the younger generation. Many farming families do not communicate effectively allowing individuals, particularly the younger generation, to discuss their goals and aspirations in the business. Therefore a formal family meeting called The Family AGM, ideally chaired by an independent person, can bring fresh life into a family business.

EXAMPLE FAMILY AGM AGENDA

Business performance

- Physical - benchmarking
- Financial – annual accounts
- Staff performance

People and family

- Personal – assets and aspirations of individuals
- Capability – strengths and weaknesses of individuals
- Training requirements
- Retirement and Succession

Financial

- Bookkeeping
- Liaison with professionals
- Proactive tax planning and business structures
- Bank relationships and facilities

Personal

- Drawings
- School
- Holidays

These meetings involving the whole family, need to be held at least once a year, when there are particular tensions or big projects going on.

The independent chair could be thought of like a non-executive director and could be someone such as your solicitor, accountant or bank manager.

MANAGING RISKS IN THE FAMILY

The actual risks to a business are usually managed by drawing up a risk register and this would be used more than any other tool and should be reviewed almost on a quarterly basis. It is difficult for families and individuals to deal with these factors without some form of structured and logical approach and a clear vision for the future of the business.

THE FARMING FAMILY CONSTITUTION

This is a written statement defining the rules for the family in respect to its relationship and the business – a collection of family policies, values, hopes and ambitions for future success. It can also include specific policies on matters such as effective tax planning, investment and education and includes:

- Family values
- The Family board
- Succession
- Voting on decisions
- Dealing with major decisions
- Identifying and managing risks
- Dividend or drawings policy
- Employment policy
- Code of conduct
- Exit strategy and expulsion
- Conflict resolution

The process of creating the constitution can help to include and involve members of the family that may have become disheartened or distanced from the business. It will help improve communication as any current problems/visions for the future will have to be discussed in order to create the document; these honest and open discussions are normally otherwise avoided. It should also make family members think how they need to develop their skills in the future in order to achieve the goals they set. Most importantly, the process of creating the constitution should bring the immediate members of the farming family and non-farming family members closer together. It is important at this stage to manage the inheritance expectations of the non-farming individuals, particularly siblings.

The whole process also provides the opportunity to review inheritance tax planning within the family; for example the ownership of potential development sites to make sure that the older generation do not end up with substantial cash with no relief. Another example is where renewable projects can be held within a corporate entity and the shares held by the wider non-farming family enabling these individuals to benefit from dividend income without interfering with the core farming business.

Once the constitution is in place, roles will be clearly defined and all family members should be 'singing from the same hymn sheet'. There will also be a clear process for dealing with conflict when it arises and expectations and ambitions of the next generation will be clearly understood. The family constitution can also be a tool in managing transitions or dealing with unexpected events such as the sudden death of a key member of the family.

By putting a family constitution in place, the best possible processes will have been implemented, making the right decisions as a family for the future of the business and the preservation of the family wealth and assets for future generations. And most importantly a family working and communicating effectively will always result in a business delivering higher profits.

For further information please contact Gary Markham on 01480 445490 or email gary.markham@landfamilybusiness.co.uk



Tax Planning | Family Agreements | Family AGM | Succession | Accounts | Wealth | Generations
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