


DRUCKER
SCHOOL of MANAGEMENT
CLAREMONT GRADUATE UNIVERSITY



The 5 Cs of Generational Continuity
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You Might Be a Farmer- Top 10 List

#10- If you've ever been fired by your boss in the morning and had dinner at their house that evening, you might be a farmer.

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You Might Be a Farmer- Top 10 List

#9- If your succession plan specifically calls for crossing your fingers, rubbing a rabbits foot, or bribing your sister, you might be a farmer.

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You Might Be a Farmer- Top 10 List

#8- If your definition of a “rough road” is based on driving a farm truck across a corn field at 40 miles an hour, you might be a farmer.

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You Might Be a Farmer- Top 10 List

#7- If you’ve ever hired your brother or fired your father, you might be a farmer.

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You Might Be a Farmer- Top 10 List

#6- If as a kid you were ever late to school because you had to pull a calf or move handline, you might be a farmer.

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You Might Be a Farmer- Top 10 List

#5- If your dad hired you to operate a \$250,000 piece of equipment because he couldn't find anyone cheaper, you might be a farmer.

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You Might Be a Farmer- Top 10 List

#4- If your retirement plan consists of looking over your children's shoulder and second guessing their every move, you might be a farmer.

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You Might Be a Farmer- Top 10 List

#3- If you consider your annual family reunion a corporate board meeting, you might be a farmer.

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You Might Be a Farmer- Top 10 List

#2- If your compensation has ever been a side of beef, a load of corn or any other form of currency not accepted at Walmart, you might be a farmer.

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You Might Be a Farmer- Top 10 List

#1- If you love what you do and wouldn't consider any other profession, you might be a farmer.

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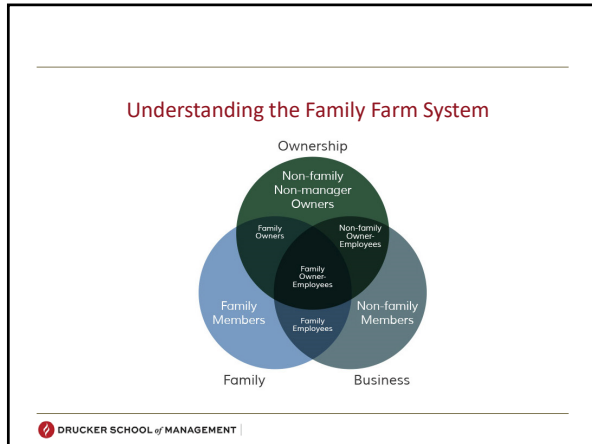
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Questions to Consider

- When you think of a successful generational farm transition, what were the crucial elements?
- What can I do as an advisor to systematically remove risk for my farm-owning client's operation?
- How do I talk to my farm clients about sensitive topics?

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- Proactively Managing the 5 Cs of Family Farm Transitions**
- Contingency Plans- Ownership/Management
 - Cash Flow
 - Communication
 - Conflict
 - Compensation
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Ownership Succession

“Whenever you see a successful business(farm), someone once made a courageous decision.”

Peter Drucker

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1a- Ownership Contingency Plans- Questions to Consider

- If any of the owners were to pass away, how would assets flow?
- What liquidity needs would the farm have if one of the owners were to pass away, desire a buyout, etc.?
- How might the death of an owner effect the lending relationship with the bank?

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Leadership/Management Succession

“Only three things happen naturally in organizations: friction, confusion and underperformance. Everything else requires leadership.”

Peter Drucker

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1b- Leadership/Management Contingency Plans- Questions to Consider

- How big is the, “knowing/doing gap” between current leaders and those rising in the ranks?
- What decisions are made by only one manager/leader and how would the farm move forward without them? (marketing, financial, operational, etc.)
- What relationships does the farm have because of one person’s relationship with the client?

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Cashflow

“Entrepreneurs believe that profit is what matters most in the enterprise. But profit is secondary. Cash flow matters most.”
Peter Drucker

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2- Cashflow- Personal and Business

- How prepared is the senior generation personally to have the cashflow they need to maintain their lifestyle if they were to step away from the farm?
- Are farm cashflows sufficient to invite the rising generation back to the operation?
- What percentage of the retiring owner’s retirement expenses will be dependent on the ongoing success of the farm?

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Communication

“The most important thing in communication is to hear what isn’t being said.”
Peter Drucker

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3- Communication

- What patterns does the family have for communicating about farming, money and family goals?
- Do you have regular family meetings? If so, are they structured and inclusive?
- Is there a healthy way for family members to ask questions about the farm and expectations that others have of them?

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Family Meeting Best Practices

- Schedule them well in advance
- Co-develop the agenda with all involved (Don't try to tackle too much in one meeting!)
- Have a healthy mix of business review, educational activities, goal setting and fun.

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Conflict

“If you want something new, you have to stop doing something old.”
Peter Drucker

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4- Conflict

- What patterns does the family have for resolving conflict?
- What proactive measures are in place to keep all stakeholders informed?
- What structures are in place to manage transitions of ownership and management? (Buy-Sell agreements, etc.)

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Compensation

“If you can’t measure it, you can’t manage it.”

Peter Drucker

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5- Compensation

- Compensation structures must change as the organization changes. (1st generation pay philosophies don’t work in 3rd generation farms.)
- Consider paying family members for the job they perform, not based on their family needs or family name.
- Accountability and fairness are crucial to people feeling appreciated and engaged in the work.

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Conclusion

- How will you help farm-owning clients manage their 5 Cs?
- What business opportunities might present themselves as you proactively manage the 5 Cs?
- What conflicts might be avoided or minimized by strategically managing the 5 Cs of family business continuity?

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- Re-Defining the Client Relationship
- Deeper Discovery by Asking Better Questions
- The Family Enterprise - with Case Study
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- Navigating Financially Diverse Relationships
- Appreciating & On-Boarding In-Laws
- Pitfalls, Perils, & Possibilities of Shared Ownership

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