

PIFF Newsletter

Winter Edition

PIFF | Purdue Initiative
for Family Firms

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Welcome to PIFF!

The Purdue Initiative for Family Firms (PIFF) is an initiative in Purdue's College of Agriculture. PIFF is an integrated research, outreach, and teaching program. It offers educational programs that address the major competencies needed for effective family business ownership and management. The goal of the initiative is to prepare family business stakeholders—strategically, financially, and emotionally—for the significant and sometimes unpredictable transitions and decisions that must be made, which determine the success and continuity of the family business.

PIFF provides multi-generational family businesses with research-based business management resources aimed at improving personal leadership performance and driving operational growth. Our ambition is to prepare family business owners, managers, and stakeholders (including non-owner spouses and future owners) to be effective stewards of their family enterprises.

PIFF publishes a quarterly newsletter that will house an article from each part of the pie, found on our website – purdue.ag/piff. The four quarters of the pie include topics of:

estate and personal financial planning, strategic business planning, maintaining family bonds, and leadership and succession planning. Each section houses articles, guides, and assessments of related topics which can be viewed online or downloaded.

Also found on the website is a *Question of the Month*, PIFF Research, an option to subscribe to our quarterly newsletter, and upcoming events.



Strategic Business Planning

Families can create policies without realizing it. A decision made about who can come into the business and when they can come into the business can develop into an expectation of how things will be done from then on, which then becomes a policy. In other words, it is an implicit policy and as such becomes an expectation of how things will be done. Our October [Question of the Month](#) results show that 39% of family businesses have

Leadership & Succession Planning

policies that guide decisions inside the business, yet *only* 11% of had a policy that guided decisions about the relationship between the family and the business.

Policies are a way of setting expectations. A family unit *and* business are stronger and more sustainable when family members go through the process of setting policies. These policies can range from the timing and business conditions under which a family member can enter the business; who and how many family members are on the board; the need for prenuptial agreements; to choosing the next business leaders. The process of thinking through these tough decisions not only helps a family navigate difficult conversations but if done properly, they enable the family members to navigate other future crises. An important outcome of setting policies for the family business is that these guidelines are set in place before they become rules based on a present situation. For example, no couple wants to hear at the time of their engagement that they need to sign a prenuptial agreement in case they get a divorce. Not only will the family business member be caught by surprise, but they will also be upset with whoever brings it up. Not to mention, the prospective spouse will likely be unhappy as well. They will both have lingering resentments that will last long into the marriage that will not only affect the family but the family business. However, if the policy is that family business members are required to have a prenuptial agreement and this policy has been in place and members of the family have always known about it since they were teenagers and they understand why, then a prenuptial agreement is no longer a statement about the particular family member or prospective spouse. The prenuptial agreement has no bearing on the marriage or is not a statement of dislike of the spouse by family members, then it is no longer a matter of “now that you are getting married, ask Dan to sign a prenuip”.

It is important to have policies and guidelines for decisions that are thought out and written down. Creating policies and guidelines for the family business is hard and time consuming. It is up to the family to decide if the policy will be made within the family system or the business system. In order to be able to create policies, a family should have fostered an environment where family members feel heard and encouraged to speak and listen respectfully to one another. It is usually easier to start the process with a simple or agreed upon policy and slowly move on to more contentious policies that may require more research and discussion. It is hard work, but every family business should have a family business handbook.

Recommended Reading: Aronoff et al. (2011). Developing family business policies. A Family Business Publication.

Making a List and Checking It Twice: The Importance of Inventorying Farm Assets

Nicole Olynk Widmar and Courtney Bir

Even as we progress through December, with harvest in the rearview mirror (at least for most Midwest operations), the farm manager's "busy season" is far from over. The end of year flurry of activity surrounding farm record keeping and finalizing farm financial statements post-harvest keeps most farms busy through the end of the year. Furthermore, those practicing active tax planning and tax management may find that carefully timed and planned expenditures are advantageous to the farm operation. Black Friday combine shopping, anyone?

**Estate &
Personal
Financial
Planning**

Even with the pressure of the upcoming tax season, and perhaps bankers looking to discuss revolving credit lines or operating notes, there is one aspect of farm record keeping that often gets short-changed - Inventorying Farm Assets. Presumably, people "know" what assets are available for employment in the farm business. But, inventorying assets is not just counting how many acres are available for pasture versus crop production. Updating farm balance sheets can aid in inventorying assets. A cost-basis balance sheet can surely aid in on-farm decision making if employed strategically. A cost-based balance sheet shows the initial cost of the assets plus improvements minus depreciation. A balance sheet prepared on a cost-basis provides a more accurate picture of actual performance of invested capital and is critical to the examination of changes in net worth or owner equity. A market value balance sheet estimates farm asset values using current market prices for assets. Market value balance sheets are relatively easy to develop and allow examination of the liquidation values of farm assets. A market value balance sheet can go a long way towards inventorying, and valuing, farm assets, including long-term and short-term material assets and financial assets¹. Even if market value balance sheets are being updated regularly, consider items such as fences, corrals, roads and trails, ponds, water sources, proximity to markets (including grain handling locations) as additional necessary resources that should be documented and worked to maintain.

Other farm assets, such as human capital or labor, are not so easily valued and inventoried. Farms, in particular those farms looking to grow or transition ownership, should consider inventorying management and labor resources according to not only quantity available (i.e., available to work 2 days a week versus 5 days a week), but also in terms of skill set, and perhaps according to areas of farm management strength and weakness. It is often not until farm business transitions that certain knowledge becomes fully appreciated, such as historical use of certain ground or maintenance of relationships with landowners who allow access or use of roads or trails. Farms working through transitions, in particular, should take time to inventory assets available (and needed) for farm operations to continue and grow, recognizing that material assets valued on the farm books are only part of the true inventory of resources employed.

¹ For detailed, up-to-date information on market value balance sheets and their analysis, see the April 2017 publication by Dr. Michael Langemeier available at <https://ag.purdue.edu/commercialag/Pages/Resources/Finance/Financial-Analysis/Market-Value-Balance-Sheet-and-Analysis.aspx>

Is your business a family business?

When most people hear that phrase, they think in terms of some formal and regular involvement of family members in defined business activities with some payment for such activity.

Yet in the broadest sense, family businesses cover a much broader involvement of family members. The work might include the regular activities of the business or it may be an occasional job or it simply may mean help in planning and development. Taken to its extreme, the involvement may simply mean being there to help cover an emergency.

In a family business, payment for such work is not required.

Finally, the “family” connection is not fully defined. It may be blood-relative or an adopted child. It also may be an in-law, someone connected by marriage. Given our wide use of those considered family, there are many others who may be involved in the family business.

As a manager, it’s important to consider this as you operate the business. Your first step should be to determine who is working for your business who considers themselves “family.” Family members often have different ideas of their rights and responsibilities as well as their expected level of compensation. And certainly, they may have ideas about progression “up the ladder” as jobs become available.

Being aware of this can help navigate some of management decisions that will need to be made. Family relations are complex. Business relations are complex. Now mix the two together and you have great opportunities for unhappiness and dissention.

Avoiding, or at least minimizing, these potential negative aspects begins with understanding where everyone’s perspectives. Open communication is also important, as is talking about certain sticky points before they become a problem.

Don’t assume that a one-time conversation, even if everyone seems in agreement, is the end, however. Keep revisiting and checking to see if feelings and desires have changed.

Family businesses can be a great place to work. Your proactive efforts as a manager can make them stay that way long into the future.

Maintaining Family Bonds



Purdue Initiative for Family Firms

Build Your Business Plan for Free!

Coming up with business plans and structuring a family business correctly are critical steps in the planning process. Doing these correctly can set the stage for a smooth and efficient business operation. Check out the business planner (interactive business planning program) [here](#) for a completely guided experience on building your own business plan! Other publications related to business planning, including a sample business plan, can be found on [PIFF's Business Planning](#) webpage.

Next Steps to Successfully Growing Future Farm Generations

For a family farm business to survive the decades, a farm family must plan the transfer from one generation to the next.

The Purdue Extension Succession Planning Team is hosting a series of workshops around the state of Indiana. If your family faces a future farm business transfer, join them for a workshop to help you explore:

- Long-Term Care
- Retirement Planning
- Caring for the Caregiver
- Buy/Sell Agreements
- Is an LLC Right for You?

Cost: \$40 for first 4 family members; \$10 each additional member



Registrations forms will be posted as they become available:
[PIFF's Upcoming Events Page.](#)

Dates/Locations:

- **Jan. 18**, 1-4 p.m., White County Fairgrounds, 12 N 25 E, Reynolds
- **Jan. 24**, 1-4 p.m., 1200 S. Main St., Tipton
- **Jan. 24**, 9 a.m.-noon, Lake County Government Center-Purdue Extension; 2293 N. Main St., Crown Point; meeting Room A
- **Jan. 25**, 6-9 p.m., Purdue Extension Office, 203 S. Prince St., Suite B, Princeton
- **Jan. 31**, 1-4 p.m., 484 N. Morton St., Franklin
- **Feb. 6**, 1-4 p.m., Putnam County Fairgrounds, 191 N. US 231, Greencastle
- **Feb. 8**, 6-9 p.m., Fulton County Fairgrounds, 1009 W. Third St., Rochester
- **Feb. 13**, 9 a.m.-noon, Whitley County 4-H Center, 680 W. Squawbuck Road, Columbia City
- **Feb. 20**, 6-9 p.m., 247 Atwood St., Corydon
- **Feb. 27**, 6-9 p.m., Switzerland County Technology and Education Center, 708 W. Seminary St., Vevay
- **March 8**, 5-8 p.m., Henry County Memorial Park, Smith Building, 2221 N. Memorial Drive, New Castle
- **March 8**, 9 a.m.-noon, Madison County Fairgrounds, 512 E. Fourth St., Alexandria

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