

Family Business Decision Making

Kellogg Rural Leadership Project Report

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1 Executive Summary

Family businesses play an important role in the New Zealand business landscape and are especially important in sheep and beef sector. The overriding aspect that sets them apart from other business forms is the level of complexity with the combination of family and business. The quality, speed and execution of decision making are the hallmarks of high performing businesses. How farming families in the sheep and beef sector make good family business decisions was the focus of the report.

Early general reading shaped my thinking and I proposed good family business decision making was based on clarity, governance and simple processes and systems.

Further academic knowledge gathered on family businesses during the report period challenged this hypothesis but it was the real life stories of people faced with making family business decisions every day that really got my attention and altered my views.

Four family businesses and four advisors were interviewed and the results analysed identifying key themes. Critical thinking pulling the learnings of the literature review, interview phase and key themes resulted in my view that family businesses decision making is not necessarily about balancing the competing and often conflicting needs of family and business, but about integration. Integrating both family and business and applying three pillars; communication, a technical plan and oversight help to make good family businesses decisions. Decision making truly is a unique practice and that there is no one process that is better than the other or simple model that can be applied to different scenarios.

It is hoped that this report will stimulate further discussion and debate on family business decision making by families and advisors.

2 Acknowledgements

I would like to thank everyone who has helped me over the past 6 months. In particular I would like to thank

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- To my husband Tom, your support and wise balanced head is always so valued. We make an awesome team and soon we will too be having our own conversations about integrating family and business.

3 General Introduction

The foundations of New Zealand's business landscape are built on successful family businesses such as Fletcher buildings, Quality Bakers, Resene Paints and Sleepyhead (Nicolson *et al.*, 2009). Primary sector businesses too have a long history of success such as Gallagher, Talley's, Allan Scott and Bendigo Station. Considering the decades that these businesses span, it is safe to say that family businesses are by no means a recent phenomenon. However family business consultation and research is. This lack of specialised focus is surprising considering that family businesses dominate the global economic scene, comprising approximately 70% of businesses worldwide and 60% of businesses in New Zealand (Nicholson, 2009).

3.1 What is a family business?

Defining the meaning of a family business is not an easy task. Writers from across the globe have used numerous definitions in their research, of which no one definition is universally accepted. Definitions usually include three key criteria; the ownership, management and/or the perception of "familiness".

In this study, a family business is defined as an organisation where two or more extended family members influence the direction of the business through the kinship ties, management roles or ownership rights (Tagiuri and Davis, 1982).

To narrow the wide focus from family businesses in general I have chosen to look at agricultural family businesses and specifically those in the sheep and beef sector.

3.2 The significance and situation of family business in New Zealand

Family business plays a major role in the New Zealand business landscape. Their incidence is estimated to be approximately 60% of all business. Further, 80% of all employment is in family businesses and family businesses contribute 65% to the Gross Domestic Product (GDP) (Hickman, 2010).

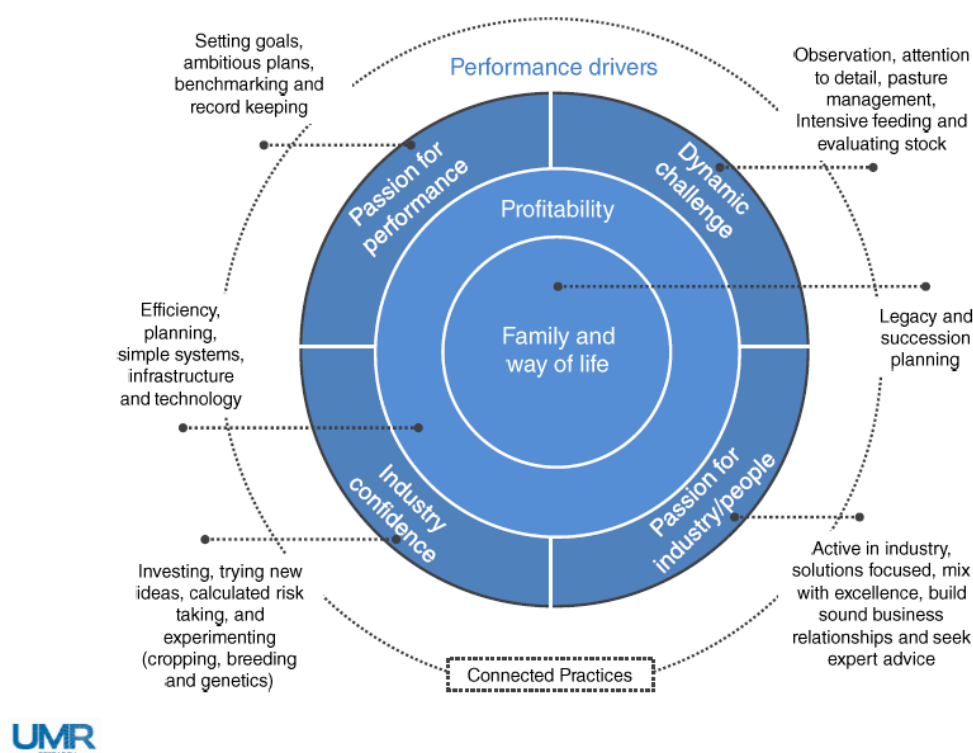
In breaking this down further and looking specifically at the agricultural sector no specific statistics on the number of family owned businesses could be found. Beef + Lamb New Zealand couldn't provide specific industry statistics either. However if you put aside the large corporate farming models such as Landcorp and MyFarm, it is widely assumed that the majority of New Zealand sheep and beef farms are family owned and/or operated.

Like in any business world there are high performers and lower performers. A recent study looking at the mind-set of family businesses in the sheep and beef sector

commissioned by the Red Meat Profit Partnership gave an insight into the traits and motivations behind high performance farmers. This report concluded that the underlying motivation for why farmers operate the way they do is the importance of both family and the way of life that farming provides. While profitability is critical, when it is boiled down, profits allow top performers to provide opportunities for their families, and live the farming way of life that appeals so deeply to them (RMPP, 2014).

The pictorial representation (Figure 1) summarises what the main drivers of performance among New Zealand's top sheep and beef farmers are and the practices these drivers lead them to adopting.

Figure 1. Performance Drivers. From Red Meat Profit Partnership (2014)



3.2.1 Family and way of life

The RMPP report clearly showed that for almost all farmers, family and the way of life that farming provided was central to the attraction of sheep and beef farming. Family was an important driver of performance as many sought to be able to provide their children with similar opportunities as they were given by their parents.

The way of life that sheep and beef farming provided was a key driver for keeping farmers on the land. For top performers, farming allowed them to spend time with family while making good profits and maintaining an enviable way of life.

3.2.2 Formal processes, structures and strategies

Another aspect emerging from studies is the reluctance of family businesses to implement formal processes, structures or strategies (Smyrnios & Dana, 2007).

According to a piece of work done by the University of Auckland on governance for family businesses about half of the responding businesses do not have any process in place to deal with conflicting issues (Hirsch, 2011).

Regarding farming family businesses, the RMPP survey also looked into what processes and strategies sheep and beef farmers had in place. They found that farm businesses are predominately managed through planning meetings with family or a rural professional. Planning meetings were the most common way of managing farms, with 69% of farmers reporting holding them with their spouse or other family members and 59% reporting holding them with a rural professional. Advisory and governance boards were used by far lower proportions (18% and 9% respectively). Just under half of farmers (46%) said they have a written plan with goals reviewed at least annually and a similar proportion (47%) indicated they have a budget and regularly review it.

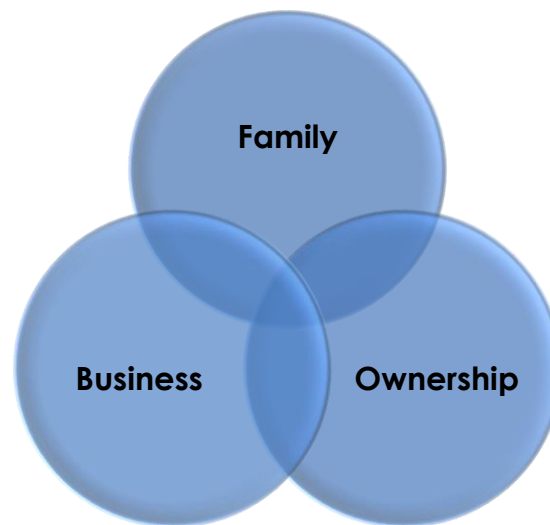
3.2.3 Specialist advice

Adding to the described situation and the attitudes of families, the availability of specialist advice adds to the current state of affairs. While it is common practice for family businesses to make use of traditional external advisors such as accountants and lawyers to receive general business advice, they seem less prepared to ask for advice on issues that arise in the overlap of family and business (Nicolson *et al*, 2009).

3.3 Family and Business – Its complicated

The overriding aspect that sets family businesses apart from other business forms is the level of complexity. The three circle module developed by Tagiuri and Davis (1996) sought to simply clarify the three interdependent and overlapping groups that make up the family business system. It is now widely used as a framework for understanding family business systems. Each of the groups has their own unique attributes, goals and dynamics. Tagiuri and Davis (1996) proposed that for those in family business, problems typically arise when trying to balance and fulfil obligations in each of the circles, especially simultaneously.

Figure 2. Overlap of Family, Ownership and management groups. From (Tagiuri and Davis 1996)



The 3-circle model depicts three overlapping circles with distinct zones (Figure 2). It attempts to identify role, functions and responsibilities for those who find themselves in one or all seven areas. Understanding roles and subsystems within the model helps to grasp the numerous pressures inflicted upon people and the competing and often conflicting needs. For example, a member of a family who does not work in a business may have very different needs and perspectives of the business than someone who is a family member and works daily in the business.

The most important layer of complexity is added, because this business form combines the subjects of family and business. As both systems impact on each other, a greater potential for conflict arises (Tagiuri & Davis, 1996).

3.4 Decision Making – Your competitive advantage

Decisions are the coin of realm in business. Every success, mishap and opportunity seized or missed stems from a decision or failed decision made by someone (Rogers & Blenko, 2006). According to Rogers and Blenko, making good decisions and making them happen quickly are the hallmarks of high performing organisations. This same article called 'Who has the D?' goes further to state that what set top performers apart from the rest are the quality, speed and execution of their decision making. Companies that succeed tend to follow a few clear principals.

- > Some decisions matter more than others – Some will be big strategic decisions, but just as important are the critical operating decisions that drive day to day business.
- > Action is the goal – Good decision making does not end with a decision; it ends with implementation.
- > Ambiguity is the enemy – Clear accountability is essential

- > Speed and adaptability are crucial – Those that make good decisions quickly are able to act on opportunities and overcome obstacles at a faster rate
- > Involve – Involve the people who will live with the new decision in designing them.

**A good decision
is based on
knowledge and
not numbers.
*Plato***

What sort of decisions are farming family businesses faced with? Most people quickly think of succession. Yes, succession is an important family business decision, but it is also not the only one. The following fictional examples illustrate the types of decisions family businesses may encounter.

- > Jack and Jill have three young children. The neighbour's farm is up for lease and Jack is focused on making it work. Jill is worried what affect it will have on the family.
- > Harry, Henry and Harriet are 3rd generation family farmers. Henry and his family run a successful farming business on the home farm. Harry, an off-farm brother, wants to come home and set up a tourism business. Together they need to decide if the land asset supports both businesses and families.
- > Dad, his lawyer and the accountant have agreed on the best way to split up the farm. Daughter Rachel is not happy about it and is not talking to any of her siblings and won't be coming home for Christmas.
- > Rob has taken over the family farm. Rob's parents have shifted to another house on the property and handed over the reins. Rob is feeling frustrated as his Dad is still overriding Rob's management decisions. It is going to come to a head if something doesn't change.
- > Millie is determined to buy a batch in Taupo. Her husband Bruce tells her they can't afford it as they have to pay his brother out. Millie's feels Bruce's family seems more important than their own.

The specific objective of this report is to understand how farming family businesses in the sheep and beef sector make good decisions. Keeping in mind the above examples and the insights covered in the general introduction I propose that good family business decision making is based on three pillars

- > Clarity
- > Governance
- > Simple processes and systems

This project will bring together theoretical knowledge on family businesses, decision making tools and the practical experiences of family.

4 Review of literature

4.1 Clarity

Family business operates in constant tension between the family and the business. Defined purpose, values and goals are tools to provide clear priorities and clarity to navigate through these challenges.

4.1.1 Core Purpose – Fundamental reason for existence

Core purpose is the business's reason for being. For example, Walt Disney's purpose is to make people happy. Thousands if not millions of words have been written by many wise people about the need for purpose. Purpose should not be confused with specific goals or strategies. Whereas you might achieve a goal or complete a strategy, you cannot fulfil a purpose; it is like a guiding star on the horizon – forever pursued but never reached (Collins & Porras, 1996).

Cooney (2011) reported on a similar principle in his special report titled 'The family Business – Five keys to success'. The two most important requirements for long lasting family business are:

- A clear vision and purpose for the family and business (the family dream)
- Motivation beyond money – the passion and the purpose

He concluded it simply came down to understanding what we are good at doing and why we are doing it.

4.1.2 Values

Collins and Porras (1996) described values as a small set of timeless guiding principles that require no justification and have intrinsic value and importance to those inside the group. A governance document written for families and their businesses by specialist family business advisors in America suggests family businesses ask the following questions of themselves to help establish the values of the family:

- What are the particular sources of pride for the family?
- What values would the family like to uphold in the business?
- What attitude "family first" or "business first" applies (Neubauer & Lank, 1998)?

The key is not what core values an organisation or family business has but that it has core values at all.

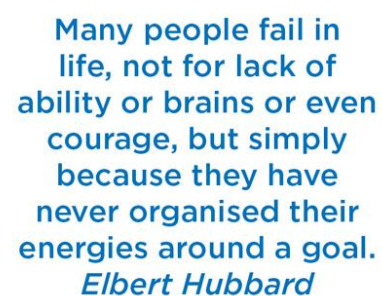
4.1.3 Goals – What and how

Top-level athletes, successful business-people and achievers in all fields all set goals. Setting goals gives you long-term vision and short-term motivation. It focuses your acquisition of knowledge, and helps you to organize your time and resources and offers clarity when faced with decisions to make.

S.M.A.R.T. is an acronym for the 5 steps of specific, measurable, achievable, relevant, and time-based goals. It's a simple tool used by businesses to go beyond the realm of fuzzy goal-setting into forming an action plan for results.

Coleman (2015) suggests it is easier to achieve our goals when we are not trying to go it alone. For many of us, our closest, most trusted companion is our spouse. Writing down specific goals and sharing them is like signing a contract. This not only increases accountability, but it also allows the people around you to support you in achieving your goals (Coleman, 2015).

Having clearly defined and written down family business purpose, values and goals acts like a road map in times of challenge and are important tools for any family and business to navigate their way.



Many people fail in life, not for lack of ability or brains or even courage, but simply because they have never organised their energies around a goal.
Elbert Hubbard

4.2 Governance

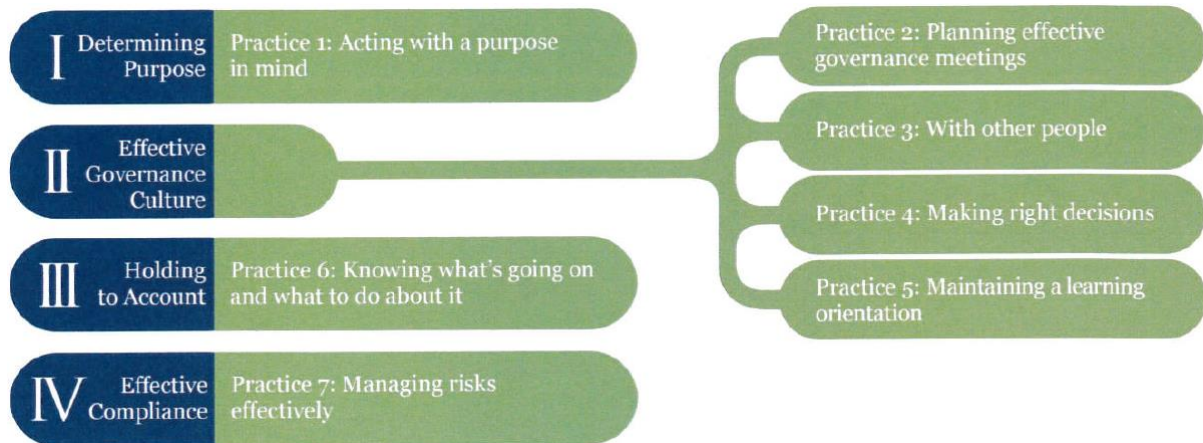
Governance is the system by which those who direct and lead the company make good decisions consistently. Guiding farming families and their businesses into the use of good governance practices, farmers will increase their decision making capability and be able to respond to change (Allen, 2013).

How formal governance works is well described by many authors, and most usefully by the New Zealand Institute of Directors publication, 'The Four Pillars of Governance Best Practice for New Zealand Directors.' The document covers a comprehensive range of governance topics for practicing directors divided into four key areas:

- > Determination of purpose
- > An effective governance culture
- > Holding to account
- > Effective compliance

In the farming context Allen (2013) suggested it was useful to boil down these governance principles to a level that is very practical. Successful governance occurs when the basics are done well.

Figure 3. The Seven Governance Practices. From (Allen 2013)



Practice four; making decisions is of particular interest and, as stated is the focus of this report. Allen (2013) suggests one basic governance practice of particular benefit in small to medium sized farming businesses is the development of a decision making framework by which future decisions are made.

4.3 Simple processes and systems

The logical aspect of decision making is widely written about (Rogers & Blenko, 2006), however research in the last few decades has started to look at emotional decision making with a new perspective. Instead of only having rational vs emotional perspectives, work has taken a more complete view, recognizing positive and negatives effects of emotion in the context of making decisions (Gino, 2015).

4.3.1 Decision making frameworks – The logical approach

In researching decision making frameworks hundreds of aids and techniques to clarify information and add objective precision were highlighted. I have chosen to look at three that I think would be most useful when applied to family businesses.

Six Thinking Hats

Function: Looking at a decision from all points of view

How to use tool: Six Thinking Hats created by Edward de Bono is an important and powerful technique used to look at decisions from a number of important perspectives. It forces you to move outside your habitual thinking style, and helps you to get a more rounded view of a situation.

It's a simple mental metaphor. Hats are easy to put on and to take off. Each hat is a different colour which signals the thinking ingredient. In a group setting each

member thinks using the same thinking hat, at the same time, on the same thinking challenge—we call this focused parallel thinking.

Figure 4. The Six Thinking Hats (De Bono)



Key Points: A good technique for looking at the effects of a decision from a number of different points of view. It allows necessary emotion and skepticism to be brought into what would otherwise be purely rational decisions. It opens up the opportunity for creativity within decision-making.

Plans developed using the 6 Thinking Hats technique will be sounder and more resilient than would otherwise be the case. It may also help spot good reasons not to follow a course of action before you have committed to it.

Cost Benefit Analysis

Function: Seeing whether a change is worth making

How to use tool: Cost/Benefit Analysis is a relatively simple and widely used technique for deciding whether to make a change. As its name suggests, to use the technique simply add up the value of the benefits of a course of action, and subtract the costs associated with it.

To use the tool, first work out how much the change will cost to make. Then calculate the benefit you will get from it. Where costs or benefits are paid or received over time, work out the time it will take for the benefits to repay the costs.

Key Points: Cost/Benefit Analysis is a powerful, widely used and relatively easy tool for deciding whether to make a change.

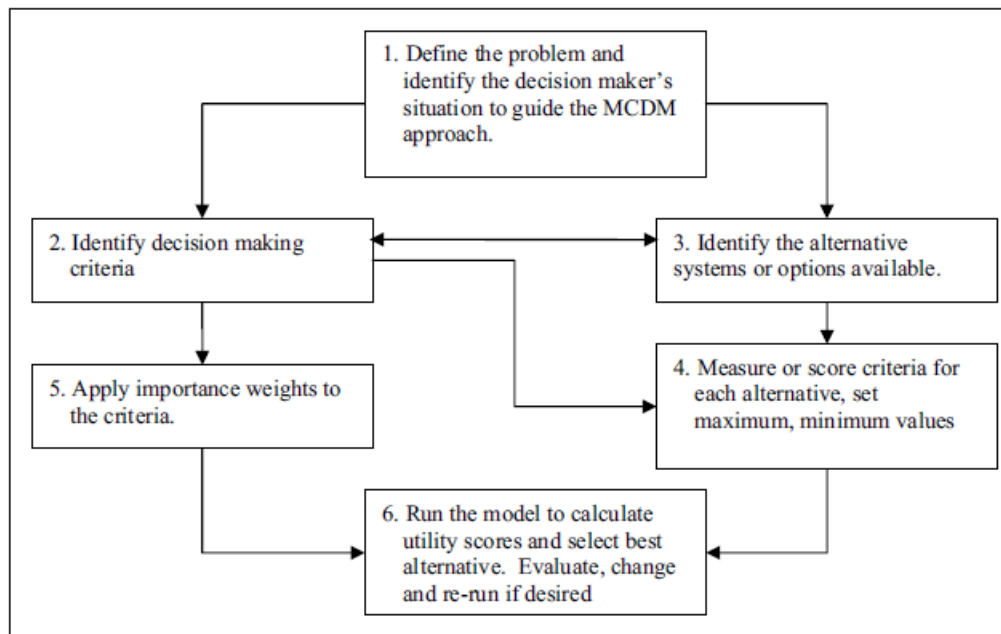
Cost/Benefit Analysis can be carried out using only financial costs and financial benefits. You may, however, decide to include intangible items within the analysis. As you must estimate a value for these, this inevitably brings an element of subjectivity into the process.

Multiple Criteria Decision Making

Function: Multiple criteria decision making (MCDM) methods provides a quantitative means to assist with decision making where there are multiple and conflicting goals measured in different units. Some of the goals are not easily measured; e.g. the importance of lifestyle.

How to use the Tool: The MCDM process consists of a series of stages from defining the problem to identifying the best alternatives.

Figure 5. The Multi Criteria Decision Making Process (From Smeaton & Dooley, 2006)



Key Points: Advantages of MCDM can include; making a decision more transparent to others, providing a means of problem structuring and working through information, providing a focus for discussion and helping people better understand a problem from their own and others' viewpoints (Smeaton & Dooley, 2006).

If MCDM is to be used in a structured manner, key points to ensure it is used successfully include:

- Ensuring that decision makers are prepared to invest time in the process
- Making sure at the beginning that the problem, MCDM decision process, technologies and any pre-defined decision alternatives are understood
- Investing time and commitment to identify criteria and alternatives, especially where these are not pre-defined or when dealing with unfamiliar technologies
- Realising that not everyone will necessarily be happy with the decision process because of differences in personality, background, objectives and expectations
- Realising outcomes will differ because of differences in perspectives (Smeaton & Dooley, 2006).

The last point above needs emphasis. Far from decision making truly is a unique process, individuals or groups will have differing outcomes.

4.3.2 Emotion – A significant factor

Emotions can improve decisions when managed as a part of the process. Neuroscientist Antonio Damasio made a ground-breaking discovery. He studied

people with damage in the part of the brain where emotions are generated. He found that they seemed normal, except they were not able to feel emotions. They also had something peculiar in common; they couldn't make decisions. They could describe what they should be doing in logical terms, yet found it very difficult to make even simple decisions, such as what to eat. This suggests that at the point of selection, emotions may be the key for choosing. Even when we believe they are rational decisions, the actual choice maybe in reality based on emotion (Gino, 2015).

Important business and or family decisions are inherently complex, and no matter how much experience we have making them, working through a logical process identifying the pros and cons can be overwhelming. Our emotional reactions to these choices maybe useful in directing our attention and energy towards what we feel are the most important aspects of the decision.

Our feelings can offer relevant and important feedback about a decision, but irrelevant emotions can take us off track. Corene Walker from Coach Approach suggests that having an agreed 'rules of engagement' process in place really helps keep your emotions in check when you have a complex decision to make. While there is no research or fact to back this statement, extensive experience coaching family businesses merits some weight. Corene comments "The ability to have safe conversations and generate healthy debate is crucial when dealing with family and business". She also suggests a simple system that allows for both logic and emotion to be considered in decision making is critical. "There is no one simple way to do it. What's important is it is discussed and formulised in some way and a commitment to abiding by its principals."

Clarity, governance and simple processes and systems combined have been identified as being important tools to help farming family business make good decisions. Defined family and business purpose, values and goals help identify priorities and focus. Governance, the framework for making good decisions consistently and simple systems and processes provide the tools to include both rational and emotional perspectives.

5 Methodology

5.1 Introduction

This study aimed to gain an understanding of farmers' and advisors experiences and perceptions rather than providing counts or measures; and as such qualitative research was used. Unstructured qualitative interviewing allowed me to explore the attitudes and behaviours of top-performing farmers, and helped to understand how family businesses made decisions.

5.2 Defining the sample

Farmers

A key aspect of this study was defining 'good family business' and then finding sheep and beef farmers to create the sample required to explore the objectives of this research.

After wide discussion with industry experts I decided to use the following criteria

- Robust - History of family business spanning 2+ generations
- Solid financial performance (while not specifically asked for all are businesses regarded as good performers by industry standards)
- Involved in community and industry initiatives
- Future focused and confident in future of their businesses and that of the sector

Advisors

Consultants were recommended to me by several industry representatives. A specific criteria was not followed however all individuals are widely known, respected and have a minimum of 15+ years' experience advising family business units.

5.3 The interview

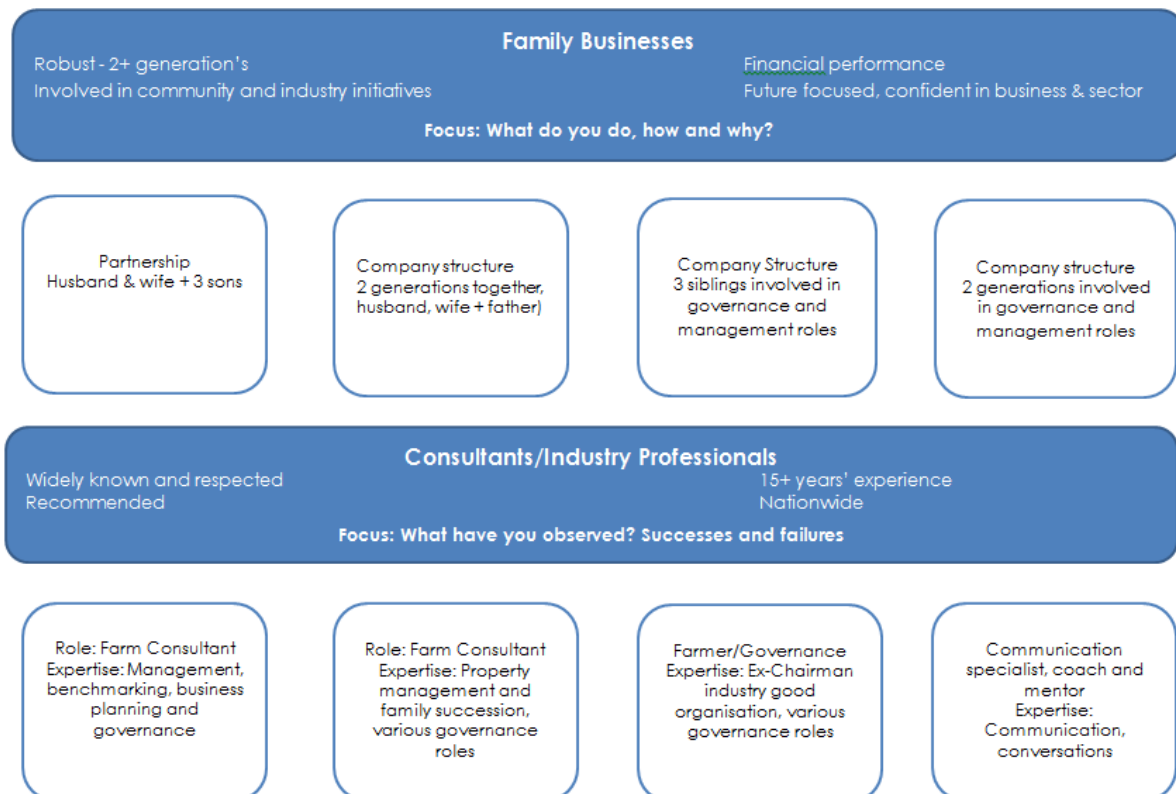
The qualitative approach used in this study was a face-to-face semi-structured in-depth interview, each interview lasting approximately 60 minutes. The interviews used a flexible line of questioning that was designed to more deeply understand what drove the family businesses to do what they did.

All farmer interviews were conducted at the farms of the participants with both the husband and wife or partner participating in the interview. The consultant interviews were a mix of face to face and phone depending on the location and availability of the individual.

Note

This is a qualitative research study and has been designed to ensure I get an in-depth understanding of how family businesses make decisions. Qualitative research allowed me to understand the range of views on this topic, however, it does not tell me how widely these views are held among the wider population of sheep and beef farmers.

Figure 6. Qualitative Interview Diagram



6 Results and reporting notes

The farmers' views and opinions gathered in the qualitative in depth interview are analysed and presented in this section. Key themes were identified and verbatim quotes have been used to illustrate the themes.

6.1 Clarity

All participants interviewed in this study agreed that having clarity was an important aspect of decision making. A combined or shared vision was talked about in every interview. I observed that family businesses that were complex (multi generations or several siblings involved) placed a greater emphasis on their shared vision.

- > *The most important part of having clarity is a shared vision. It is a common perspective that all agrees on and can work towards. In our situation it was a real starting point for us all to move forward as we had agreement on the why, it meant we all had a sense of belonging even if certain people weren't actively involved in the business and it gave us a shared goal for the future.*
- > *Having a shared vision has allowed us to come from all four corners of the table and move from 'me' to 'we'.*

In conversation I observed that all families have unwritten rules by which they operated as a family and a business, also described as values.

- > *Family first - There are always things that we don't agree on, but we always come back together as a family at the end of the day.*
- > *Our family and business values are very similar as you can't live by code in one aspect of your life and another when you choose to.*
- > *People are at the heart of what we do. Our family and those that work for us are always front and centre.*

Only one interviewee had their values and vision written down and actively used them as a tool to provide clarity and direction.

- > *When we have a tough decision to make we refer back to our vision and values document and ask ourselves, is this in line with what we do and who we are?*

- > *The farm business is like a bottomless pit, there is always something else you can spend money on. A clear picture of the end goal helps us to prioritise and rationalise our options.*

Family business advisors also commented that businesses often had vision and guiding principles (values) but rarely are they clearly articulated in a formal manner and consciously implemented into the business.

- > *I have observed two types of attitudes. Those that think about their vision and values and loosely incorporate it into their business and family and those that write it down and make a commitment to its principles.*
- > *Great in theory but my observation is that it is rarely done. This stuff doesn't come naturally and often requires special discipline to commit to paper and an even greater discipline to implement.*

Most family and business decisions are complex and are a game of choices. Having relevant, robust information to support decision making was commented by all as being a crucial part of clarity and the decision making process.

- > *As technology and access to information has increased access to information has got easier in one way but harder in another as there is just so much. In my opinion it is critical that you have a good filter and focus on the information that is important.*
- > *Information is king when it comes to making decisions in our business. We are constantly measuring and monitoring our business performance.*

6.2 Governance

Governance is increasingly being talked about amongst farming family circles as being vital and significant. Identified in my early thinking as being important, specific questions were asked about governance. All businesses commented it was important but felt it was over complicated by many.

- > *In our discussion groups and circle of friends the word governance is thrown around often as we are told we need it. In our opinion it can be taken too far by many. The principles should be implemented in all businesses however it depends on the size of the business and the skill set of those operating it to what level.*

Three common themes were identified as being critical to governance in practice. The strongest theme observed was the value of independent people and thought. It was viewed as being important as it brought outside perspectives, specialist advice and new ideas to the table.

- > *As the independent person at the table we bring critical thinking skills and ask the hard questions. This can be in many forms, as a part of an advisory board or formally on a board, depending on family and business needs.*

Independent thought was viewed as being especially important when integrating family and business issues, helping to manage relationships, emotion and tradition.

- > *In order to maintain relationships, tricky questions and hard conversations are often avoided, this is where independence people are so crucial as it is their role to ask these questions.*
- > *We really value outside perspectives and people that are independent as they are able to ask the hard questions, manage emotion and traditions.*

Two views were held on independent thought, one that it had to be someone truly independent.

- > *They must be the right person that can understand the family dynamics and the business, manage the emotion in the conversation while bringing professionalism and integrity to the table. We place high value on someone who is truly independent and without conflicts of interest.*

The second view was that independence came in many forms and depended on the business and family needs.

- > *Independent thought comes in many forms like specialists, friends, advisory boards. One is not better than the other, what is important is that you have it.*
- > *We have often talked about having someone independent on our board but haven't got much further than that. Perhaps fear of not finding the right fit has been the barrier so far.*
- > *We are a small relatively simple unit (husband and wife) and value each other's thoughts and opinions above anything else. We do however seek advice from our team or trusted advisors when needed.*

The second theme was the need to differentiate between governance and management and allocating time and resource to both.

- > *It's really important that businesses grasp the difference and separate governance and management allocating time to both parts. They require separate approaches, thinking and time.*
- > *We believe you must separate governance and management roles. It is easy to get bogged down in the operational side of running a business but you need to address the governance aspects to future-proof the family business.*
- > *We have to work hard at separating management from governance. The family attachment means it's easy to slip back into management conversations often. It's a constant battle to keep everyone's conversations at a higher level.*

The need for structure, professionalism and accountability was the third theme identified and is related to the effective culture principle. A view was shared by two interviewees that the more complex a family business structure or the more people that are involved the greater the need for formal structures and processes.

- > *Our governance structure provides a black and white set of rules and procedures by which we agree to operate. It's our safe place that we come back to to refocus on the important things.*
- > *Our family business involves two generations, and two siblings so it's natural to have differing views and opinions. At the end of the day we all have an equal shareholding and voice at the table so rely heavily on our agreed structures and processes to steer us through.*

All businesses observed had regular planned meetings.

- > *We set aside an hour together every couple of weeks during the day to prioritise our business and make sure we are on the same page. If it is important, you make it happen.*
- > *An agenda is one of the simplest processes that offer structure to meetings and conversations. In my experience it is critical that the big stuff that requires clear disciplined thinking goes first.*
- > *Communication is a priority. It's great to have the informal chat in the paddock but for us it's the planned, organised and structured meetings that really count.*

- > *I believe there is a groundswell of change approaching as the next generation of educated women become involved in family businesses. They bring the business skills and professionalism that has been missing.*
- > *We have a very structured process whereby we meet every Tuesday evening with a set agenda and rotating chair to cover operational stuff followed by a board meeting every second month. If one of us wishes to introduce change or has an idea then it is formally presented at these meetings.*

Accountability was viewed by advisors as being especially important.

- > *Most farmers are self-employed and are used to working for themselves and not having to answer to anyone. Good governance is ensuring that the business manager and the business owner (often the same person) are accountable to someone other than themselves.*

I had several interesting conversations about why family businesses were so reluctant to implement simple governance practices into their business.

- > *It is drummed into us by everyone that we need a low cost structure to be successful; therefore we don't value things such as governance, H&S or our own time.*
- > *I believe it has a lot to do with the fact that farmers are independent breeds, who are inclined to take action first and do the justification later.*
- > *Governance is being "oversold" to the rural sector; it is a solution looking for a problem. Some of the governance solutions being suggested are way too complicated and too much of a burden to a business. Keep it simple and tailor a structure for your business that fits the bill, add value and allows you to get on with it.*

6.3 Systems and processes

The methods and frameworks family businesses use to make decisions was particularly hard to draw out from discussion. I hoped to be able to see patterns or common themes used when making decisions but this wasn't the case. It was however commented on by more than one person that talking to me was a really useful exercise as it forced them to really think about their own decision making. It was quickly established by all who were interviewed that there were different levels and methods of decision making and there was no one size fits all approach.

- > *In our view there are different levels of decision making and so we have several approaches. Smaller operational decisions are made in conjunction with the farm manager or on the spot by me. The larger more financially significant decisions we make after we have run some financial analysis scenarios. Together we then sit round the table to discuss further, calling on our trusted business advisors for specialist advice if needed.*
- > *We have our own delegated areas of responsibility and therefore make all day to day decisions on our own. We do have a loosely applied decision framework that sees all decisions above a set value decided at the table with financial analysis applied.*
- > *We don't have a set written down way that we make decisions, our decision making happens in conversation and is often talked about many times before we decide to act.*

All agreed that the use of tools and aids were valuable in the decision making process.

- > *We use tools that help keep our decision making objective, not subjective such as cash manager.*
- > *Farmax is the most valuable tool on our farm as it helps make decisions based on fact rather than feeling. It helps us stay ahead and be proactive rather than reactive.*

One large scale business with several siblings involved and a strong attachment to the land put emphasis on transparency.

- > *We have a simple system, everybody knows everything always. Regular and detailed information is available to each board member. For example all receive weekly and monthly management reports. If issues arise then I ring personally and give everyone a heads up. Why is this important? So that everyone is taken along the journey we all have the same information and time to process it so when we are at the table rational decisions are made.*

Some interesting contrasting views were held about the role of emotion in decision making. Some readily acknowledged it and embraced it as a part of decision making.

- > *People make decisions not tools.*

- > *People are creatures of emotion not logic, everyone brings emotion to the table and the key is working out how you deal with it.*
- > *Family businesses have a constant battle between the head and the heart. The head provides the logic and the heart the emotion usually relating to family, both are equally valuable.*
- > *Dealing with emotion takes time, not dealing with emotion takes even longer.*
- > *Family businesses are extensions of the people involved. Until training pointed it out to me I didn't appreciate how much emotion drove our decision making.*
- > *You can't change what you are doing until you become aware of what you are doing, and how you are doing it.*

Others thought it didn't have a place at all

- > *It's there, but we choose to make our decisions on facts and numbers not gut feel. If we find ourselves stuck or can't agree then we seek outside advice.*

Upon reflection and the insights gathered from the practical experiences of families, in my view, there are more important things than having one set agreed structured approach to decision making as Allen (2013) suggests. Emotion, on the other hand, needs to be acknowledged and listened to for great outcomes to be achieved.

6.4 General insights

Communication

Decision making happens in conversation. While no direct questions were asked about communication it quickly became apparent that it was very important.

- > *We focus on constant communication on all things (family, operational stuff, business). Dad and I have a diarised meeting once a month and as a husband and wife we prioritise time during the day once a fortnight for an hour.*
- > *Things are easy, people are hard. Most of our conflict is usually a result of poor communication between family members.*
- > *In my view the key to good decision making is being able to communicate effectively (siblings, father and son, husband and wife). You need to be able*

to clearly articulate your point of view without provoking reaction, understand people and their different personalities and motivations and then apply listening, understanding and patience. It's not easy!

- > What gets talked about, how it gets talked about, and why is fundamental to what happens.*
- > Personal development has taught me how to communicate better. Often it's not what we are saying that is the problem it is how we are saying it.*
- > Don't leave your communication to an 'over the fence' discussion, make it a planned process.*
- > The most important conversations are the hard uncomfortable ones.*
- > A large part of our role is facilitating conversations and creating an environment for thoughts, feelings and ideas to come to the surface.*

All four families interviewed talked about the importance of relationships.

- > Relationships are built through the power of good communication*
- > If you can get on with people you will be successful in life. It is a real skill and a great quality.*
- > Relationships with each other and outsiders who service and support our business are a key cornerstone of our business.*

Smaller business units talked about the husband and wife team.

- > We make our best decisions together.*
- > It is a known fact that we are our most happy and efficient when we are good at what we do, therefore we work to our strengths and acknowledge weaknesses as this reduces resentment. This is our competitive advantage and if we make the most of them then we will get there faster.*
- > The biggest risk in family business is your relationship with your wife. She is your biggest support and knows you better than sometimes you know yourself. Make time for each other, a good relationship is always behind good business.*

Those with more than one generation or family involved thought trust, respect and compromise were important.

- > *We have several families represented at the table that are reliant on the success of the business. Our relationships and communication is based on trust and respect, without this nothing works.*
- > *Your most valuable currency is not money, intelligence, qualifications, experience or ability - it is our relationships, emotional capital and our ability to connect with others.*
- > *Compromise is a large part of farming with family, especially with an intergenerational aspect. There are many things you won't agree on but focus on the ones you do and keep an eye on the big picture.*

Decision making – Two parts

We often think of decision making as a singular point in time, the decision is made and we can move on. One particular comment struck me and really made me think about this in more detail.

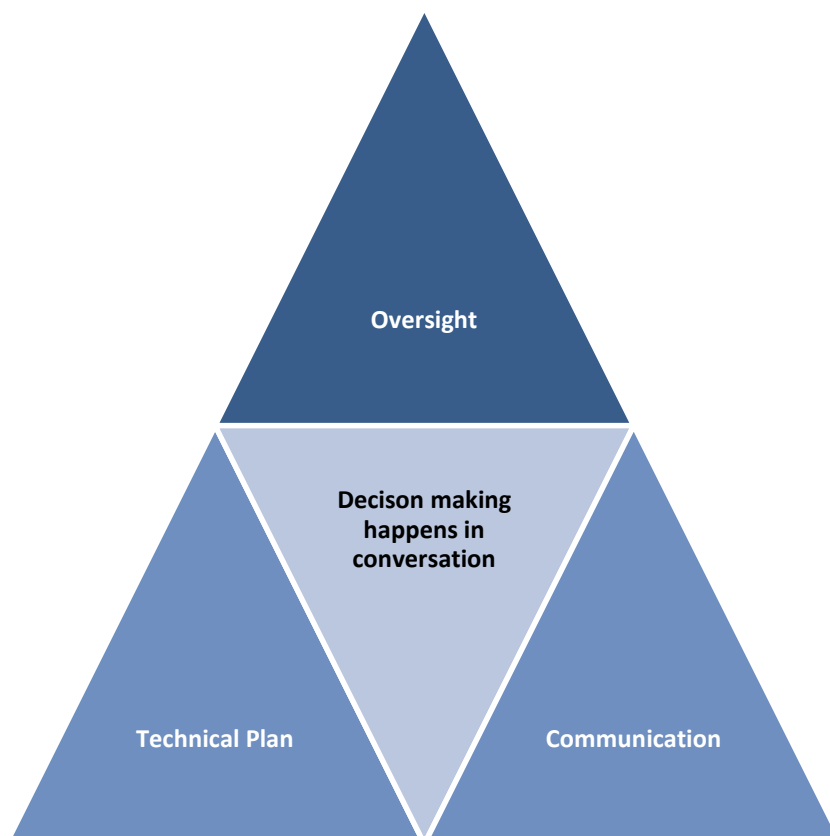
- > *It's important to make good decisions but I spend much less time and energy worrying about "making the right decision" and focus my effort and energy ensuring that any decision made turns out right.*

The point is crystal clear, the complexities associated with big stake decisions rarely end with the decision itself.

7 Discussion

It's been established that family business is complex but the rewards are great and the quality and timeliness of our decisions is what determines business success. So what makes a good family business decision? As proposed at the beginning, three core pillars are still the foundation. However at the centre of the pillars is my view that decision making happens in conversation. Some may argue that not all decisions made are a result of a conversation but I am of the view that all 'good decisions' are. My views on what these pillars are have changed also. Family business decision making is based on communication, a technical plan and oversight. I have chosen the triangle to illustrate the three pillars because it is one of nature's strongest shapes. When pressure is added it is evenly spread through all three sides.

Figure 7. The core pillars of good family business decision making



7.1 Communication

Good communication takes many forms and is a skill that can be learnt and continually practiced. A good communication strategy will encourage family businesses to have open discussion, to make consensual decisions and deal with conflict while it is minor and manageable. In the context of decision making two things are particularly important, relationships and conversations.

Nature and animals have perhaps one of the best examples of why relationships are so important. When geese migrate, they fly in V-shaped formation to conserve energy and coordinate communication. There are several key lessons that can be learned and applied to family business relationships from studying this act of nature.

When geese fly in formation, they create their own unique form of teamwork. Each bird flies slightly above the bird in front of him, resulting in a reduction of wind resistance. By flying in their 'V', the whole flock adds at least 71% more flying range than if each bird flew on its own. When the lead goose gets tired, it rotates back in the 'V' and another goose flies to the point position. In this way, the geese can fly for a long time before they must stop for rest. Flying in formation assists with the communication and coordination within the group. Fighter pilots often use this formation for the same reason. The geese flying in the back 'HONK' to encourage those up front to keep up their speed.

When you combine the learnings of geese and the simple statement made by one family "we make our best decisions together" the importance of relationships in decision making is clear. The most important relationships are those in the 'inner circle', meaning those that are closest to you. For some it will be your husband or wife and for others it can extend to include, parents, children, siblings or cousins. Think about the relationships that are most important to your family and businesses and focus your efforts on nurturing these.

Core Conversations, a Wellington-based business that teaches people how to have effective conversations has a saying. "What gets talked about, how it gets talked about, and why is fundamental to what happens". Conversations are the second important part of communication in the context of decision making. They need to be made a priority, planned and happen regularly. All families and advisors shared this view but several different approaches were observed. One comment in particular really resounded with me. "Don't leave your communication to an 'over the fence' discussion, make it a planned process". Great examples of this planned approach we uncovered in the interview phase:

- > Planned diarised meetings every fortnight
- > Weekly meetings with an agenda and rotating chair

- > Weekly and monthly emails to family members covering key issues


There are no set rules to how it should be done, how often or by whom. One person may lead and provide the structure but everyone needs to be on board and make them a priority to be valuable.

An agenda is one of the simplest and most useful tools that offers structure to meetings and conversations. The simple task of setting an agenda gives focus and allows people to come prepared.

You cannot talk about conversations without addressing emotion. Reading completed in my literature review highlights that you need both logic and emotion in the decision making process. You could write a report on emotion and decision alone as it is so complicated with polarised views. The lightbulb moment for me on the importance of emotion was the comment “people are creatures of emotion, not logic. Everyone brings emotion to the table, the key is working out how your deal with it.” Emotion doesn’t always mean shouting or crying it is simply addressing feelings. I suggest when thinking about important decisions it is helpful to think about everyone’s needs. Negative emotion can be seen as a red flag, letting you know your needs are not being met. It’s like an extra person sitting at the table, make sure you listen and embrace emotion and allow time for it to be discussed. For, as one individual commented “emotion takes time but not dealing with it takes even longer”.

7.2 Technical plan

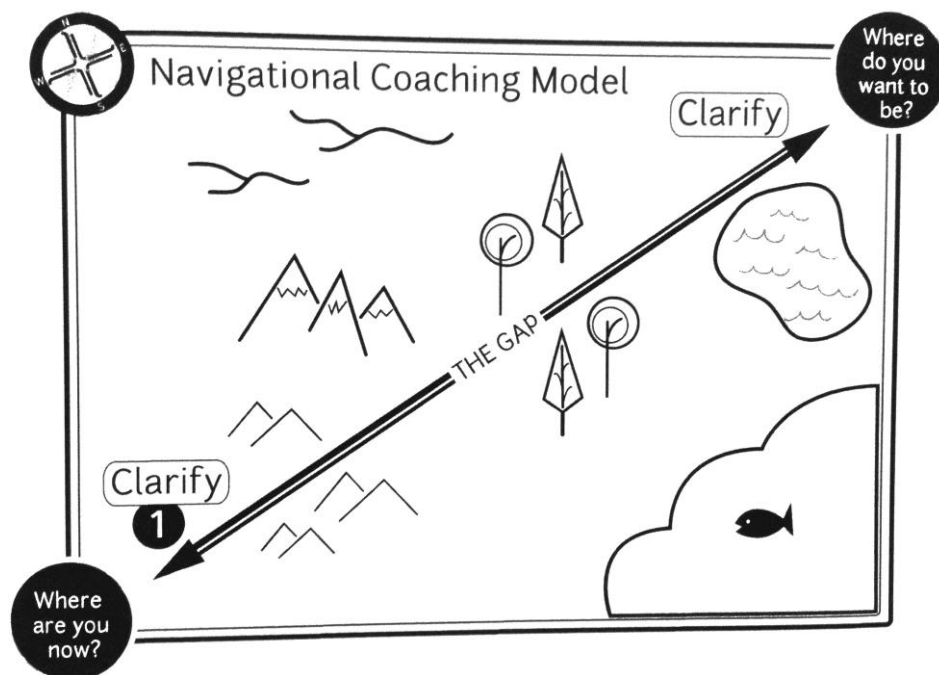
A technical plan addresses the why and the how of the decision providing clarity and I suggest it should include two key elements; direction and information. The example of a pilot preparing for a flight is a good way to simply illustrate this point. Before leaving the hanger the pilot needs to know his final destination. A formal plan of his route is then decided on and registered with a control tower. If it doesn’t know where he is heading or how he is going to get there then then there is no point to his flight. The same principles can be applied to decision making. The importance a shared or common vision was a theme identified by all as being fundamental. A common view of the future that everyone can agree on and work towards focuses time and effort and creates a sense of belonging. I observed that a shared vision can be a powerful tool to bridge the integrational gap and a way to include all members of the family. This tool is most powerful when written down and reviewed regularly.



Vision without action
is just a dream.
Action without a
vision is just activity.
Vision and action
together can change
the world.
Joel Barker

The navigational coaching model used by Coach Approach provides a pictorial example of a simple tool that can help establish clarity and direction. Establishing where you are now, where you want to be and the gap that exists between the two helps to form a plan of action.

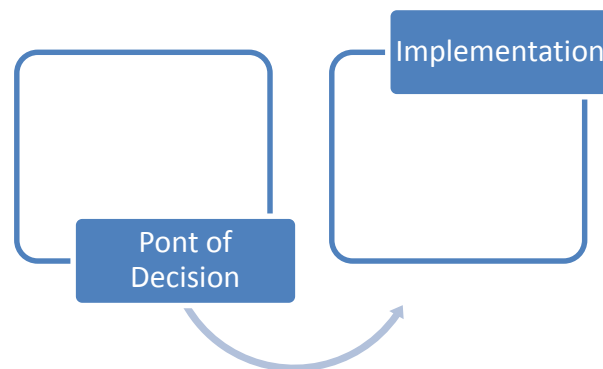
Figure 8. Navigational Coaching Model. From Coach Approach



Adding weight to a vision and aiding the decision making process is the concept of having guiding principles. In corporate speak they are called values but how often in family business are values talked about? Instead family businesses tend to have a number of known and strongly abided by principles that are central to the way they operate. It is a valuable exercise to think about what is truly important to both your family and business. What are the things that are non-negotiable versus what are flexible? Values are like your compass in life, they need to be referred to often to keep you heading in the right direction.

Making decisions is a game of choices. Having relevant, robust information to support decision making was a theme clearly identified. The development of technology has created a situation now where we have access to so much data the challenge is to decipher it, cut through the noise and find information that can be truly useful to your business. An important step to establish clarity in your technical plan is to think about the type and the amount of information that is required. Keep it simple because too much information can also become a distraction and make use of the many supporting tools in the market place that model or present information simply.

Finally, it is important not to forget that there are two parts to decision making, the point of decision and implementation. Both are important. The complexities associated with big stake decisions rarely end with the decision itself. I know myself that I can get anxious and too focused on identifying the right option. The danger is if you focus too much on the moment of choice you lose sight of what follows. Just like a game of sport with two halves, how well we play in both halves determines the outcome.



Make sure you give time and effort to both parts of the decision. Think about what skills, behaviours and attitudes will be required to implement the change. Don't fall into the trap of spending all your time making the right decision and leave no energy and effort for making sure the decision turns out right.

7.3 Oversight

I spent a lot of time and had many conversations about the best word to describe the third corner of the triangle. Many people think that governance is the best word but I have a slightly different view. I agree governance is important and that its principals and should be a part of family business however when specifically thinking about decision making 'oversight' is the word I have chosen. The Oxford dictionary defines oversight as the action of overseeing something. In the context of decision making oversight involves four things; structure and process, independent thought and feedback and risk management. It is like hovering in a helicopter over the entire situation so you can see all the parts to it.

The requirement for structure and process is a statement that is broad and loose and this is intentional. As became evident when interviewing families and talking to advisors, every family and business is unique. Every family and business has its own DNA and there is no one size fits all approach to establishing structure and process. Key ingredients to the structure and process recipe may include

- > Financial reporting – agreement on type and frequency
- > Meeting types, location and amount of meetings
- > Clearly defined roles and responsibilities

- > Creating some 'ground rules of behaviour' for the family, being a family does not excuse boorish behavior or a lack of business etiquette.

The most important part of having agreed structure and process is it encourages accountability. Give some thought to what structures and processes are central to how your business and family operates. Do you stick by them and are there any gaps?

The value of independent thought was a clearly identified theme in the interview process. Independent thought brings outside perspectives, specialist advice and new ideas to the table. It is also an important tool in managing relationships and emotion. Independent thought comes in many forms (specialists, friends, advisory boards etc). One is not better than the other, what is important is that you have it.

Feedback too is an important part to independent thought. Most of us find it challenging to see ourselves clearly and objectively. We all have 'blind spots'. One way to reduce these blind spots is to receive feedback from others. Do you have someone who has permission to wave a red flag if one or a pattern of poor decisions is being made?

Risk management is the final part of oversight that is required when making decisions. When we make decisions, we make mistakes. Therefore oversight is required to pause and give thought to the associated risk. In De Bono's six thinking hat model, this is referred to as 'black hat'. It is playing the devil's advocate and applying logic to identify reasons to be cautious and conservative. It is a really important step but could be a problem if overused.

8 Recommendations

When facing a challenging family business decision I encourage you to set aside some time and clear thinking space. It is hoped the following statements and questions based around the three pillar concept of good decision making will be useful to provoke thought and conversations about decision making by families and advisors.

Communication

A good communication strategy encourages family businesses to have open discussion, make consensual decisions and deal with conflict while it is minor and manageable.

- > Communication can only go one way at a time, listen and enquire first, talk and promote your perspective second.
- > The benefits of working together are far greater than working alone. Think about the relationships that are most important to your family and businesses and focus your efforts nurturing these.
- > Don't leave your conversations to an 'over the fence' discussion; make it a planned process that happens often. Schedule meetings, set agendas and commit to making sure these key conversations are had.
- > People are creatures of emotion, not logic. Everyone brings emotion to the table; work out how you and your family are best to deal with it.
- > Emotion is like an extra person sitting at the table, make sure you listen and embrace it allowing time for it to be discussed. Dealing with emotion takes time but not dealing with it takes even longer.

Technical plan

A technical plan provides decision making clarity.

- > If you have a common shared vision for the future, it is written down, reviewed and discussed often the chances are that you will have a far greater chance of achieving it.
- > What are your family and business guiding principles that shape the way you operate? Stay true to them and refer to them often as these keep your family and business on stable ground and heading in the right direction.
- > What type and amount of information is required? Keep it simple and make use of tools to model or clarify information but remember people make decisions not tools.
- > There are two parts to good decision making - the point of decision and implementation. Both need equal attention in order to get good outcomes. Don't spend all your time making the right decision and leave no energy and effort to make sure the decision turns out right.

Oversight

It is important to step out of the trenches and scan the horizon. Focus your attention on structure, independent thought, feedback and risk management to oversee the decision.

- > For a medium size farming business (turnover \$1-3 million), structure may simply involve a couple of meetings a year with a couple of trusted advisors. The key thing is that plans and intentions get written down, tasks are assigned and key indicators are reviewed.
- > Create "rules of behavior" or ground rules for the family and abide by them – being family does not excuse boorish behavior or a lack of business etiquette
- > Independent thought brings outside perspectives, advice and new ideas to the table. It comes in many forms, one is not better than the other, what is important is that you have it
- > Make sure those that are involved know enough about your business and enough about you to be able to make quality decisions without over complicating things.
- > We all have 'blind spots' therefore do you have someone with permission to wave a red flag if one or a pattern of poor decisions are being made?
- > Apply your 'black hat' to the decision and think about the reasons to be cautious and conservative.

9 Conclusion

Family businesses play an important role in the New Zealand business landscape and are especially important in sheep and beef sector. The overriding aspect that sets them apart from other business forms is the level of complexity with the combination of family and business. Family and way of life is the underlying motivation for the way farming family businesses operate and people will go to great lengths to ensure that their family needs are met.

The quality, speed and execution of decision making are the hallmarks of high performing businesses. Family businesses have the added challenge of making decisions whilst taking into account the family's needs and desires and the demands of running a business. How this is done and how farming families in the sheep and beef sector make good family business was the focus of the report.

Early general reading on family businesses shaped my thinking and I proposed that good family business decision making was based on clarity, governance and simple processes and systems. Further knowledge picked up along the way combined with the practical experiences of families and advisors significantly altered my views. At the centre of my new thinking is that decision making happened in conversation. Like I anticipated I conclude that three core fundamental pillars are still at the foundation of good decision making; communication, a technical plan and oversight.

Good communication encourages family businesses to have open discussion, make consensus decisions and deal with emotion. In the context of decision making relationships and conversations are particularly important. A technical plan addresses the why and how of a decision providing clarity. Direction and information are the two areas of emphasis. Like a helicopter hovering above oversight is an important to see the big picture and look at the decision from all angles. Structure and process, gathering independent thought and feedback and risk management are the four focus areas.

People often talk about trying to find a balance between family and business. I too started this projecting thinking that when making family business decisions it was all about finding this so called balance. However as I researched, talked to people and reflected on this statement I learnt that when you combine family and business there is no such thing as balance. Balance is about dividing things into equal parts and about precision and perfection. It might exist in literature but you won't find it in real life. I now believe it's about integration.

I learnt that decision making truly is a unique process and that there is no one process that is better than the other or simple model that can be applied to different scenarios. As a result of listening and learning and applying my own critical thinking I believe that if you focus your effort and time on in the areas identified it will result in good family business decisions.

In conclusion the pride and passion demonstrated by families and their businesses I observed throughout this project was inspiring. I met families and advisors who had successfully navigated their way through significant challenges and went above and beyond the norm to ensure family business success. It is hard but hard is what makes it great. The road family businesses walk making decisions along the way isn't always easy, but a journey of a thousand miles starts with a single step.

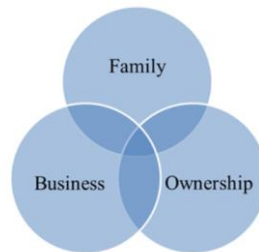
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11 Appendix

11.1 Interview Questions

- 1) What does this diagram mean to you?



- 2) Tell me about a time that you have made an important family business decision.
How did it make you feel?
How did you arrive at decision?
- 3) In my early thinking around this topic I identified that having clearly defined family and business goals and values is important. What do you think about this statement?
- 4) Do you have a process that you go through when making decisions?
Y – What does this look like?
N – If you were to jot something down right now, what would it include?
What have you seen work well for others?
- 5) Do you use tools to aid in the decision making process?
- 6) How do you catch your emotions, biases and feelings and keep them in check?
- 7) What are most important parts of governance in practice for your business?
- 8) Do you seek outside perspectives to help you make decisions?
Y/N - What stops or triggers you to seek outside advice
- 9) Do you have ground rules to make sure you can have a safe and constructive discussion about family and or business?
Y- What are some of the factors?
- 10) Is there anything you would have expected me to ask but haven't?