

# The evolution of succession and governance for a NZ dairy business - a case study

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# The business

- Started in 1987 as 50-50 sharemilkers with 450 cows
- Currently own or lease 550 hectares
- Two dairy farms and three support blocks
- 680 cows milked by 50-50 sharemilker
- 520 cows milked by contract milker
- Production should be 590,000 kg ms, 480 kg ms/cow and 1,775/ha in current season
- Land owned by a family trust
- Cattle, shares & machinery owned by company (owned by trust)

# Succession sensitization

- Started thinking about the subject around the age of 60
- Number of key informants, but most important was Van der Hoeven, who wrote that the keys to successful succession are:
  - Clear vision and profitable business
  - Strive to be fair rather than equal
  - Be aware that motivation may be about more than money
  - Willingness to trust and support farm successors
  - Good communication and working partnership between generations
  - Considerations of the needs of retiring generation
  - The business structures used reflect the circumstances

# Governance sensitization

- Initially from DairyNZ seminars – Van Bysterveldt
- From IOD
  - Good governance is about insight, oversight and foresight
  - Important to separate governance and management
- From Business Torque
  - Governance body must work in the best interests of the company, not individuals
  - The management dilemma is moving the business forward while maintaining prudent control
  - Meetings must be a safe zone
  - Must establish a purpose, mission, values and develop strategies

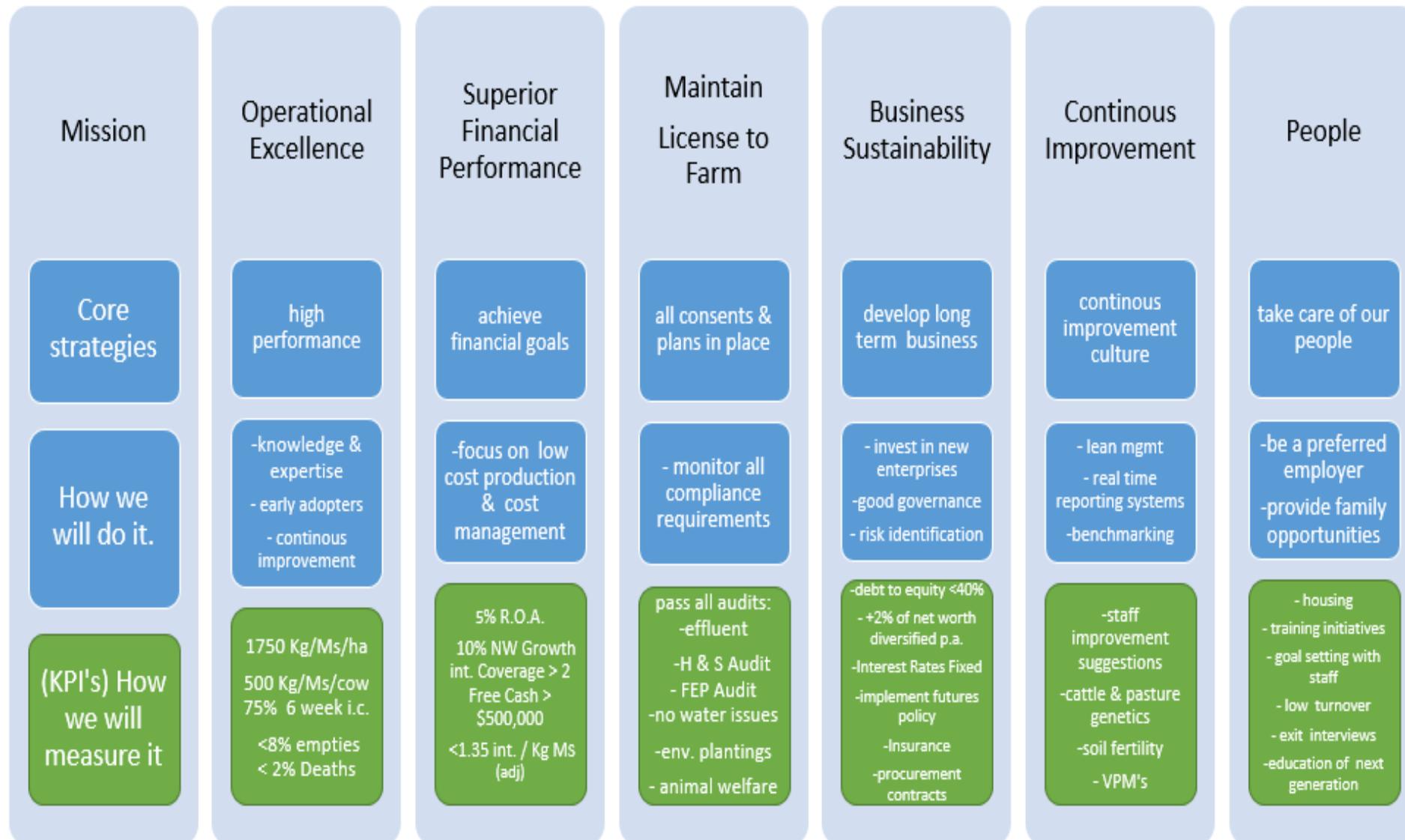
# The process

- Motivated by a health event
- Found a facilitator
  - Decision made to include partners
  - Facilitator prepared business background
  - All members met with facilitator and completed survey of personal values (some were uncomfortable)
- Family meeting
  - Values discussed, business discussed
  - Alternatives evaluated (from selling all or part to retaining)
  - Decision made to retain assets, but use financial strength to allow successors to grow their own businesses

# Implementation

- Educated family members on business - accountant
- Developed a purpose
- Developed a plan
- Agreed on a governance structure
  - Family advisory board with company accountant involved
  - Has become a management group of the men
  - May someday involve an independent director
- Established a reporting method

# To operate a sustainable and diversified business that expands the opportunities of family members



# Outcomes

- One family couple now sharemilk/contract milk the dairy farms
  - Much negotiation
    - Guarantees
    - Concession on price of cows
    - Acceptance of variable rate by 50-50 sharemilker (48% at moment)
    - Acceptance by group that 50-50 situation reduces farm profitability
- Business purchase assistance for other couple
  - Loan to purchase crop loss assessment business
  - Farm invested in couple's kiwifruit orchard

# Suggestions from our experience

- Before starting the process
  - Gain understanding of succession and governance principles
  - Important to involve a facilitator
- The process
  - Prepare a plan (involve all members)
  - Establish a governance structure
  - Constantly review plan
  - Establish a culture of learning
- Considerations
  - Results are not instant
  - Be prepared for changing family dynamics
  - Helpful if some members are passionate about core business

# Challenges

- Cost
- Goals are often conflicting (current farm growth vs family member business growth vs needs of founders)
- Potential cash flow and debt effects on business
- Can make the businesses more difficult to benchmark – there is no one exactly like us in DairyBase
- Important that at least one member is willing to drive the process
- The business has more risky

# Last word

- My caveats:
  - Jane and I will do whatever we want (they need to trust us)
  - If they ever get in a fight over money – I will haunt them from the grave
  - There is no expense to be spared on the grandchildren's education