

Retiring CEOs - Workshop Take Homes

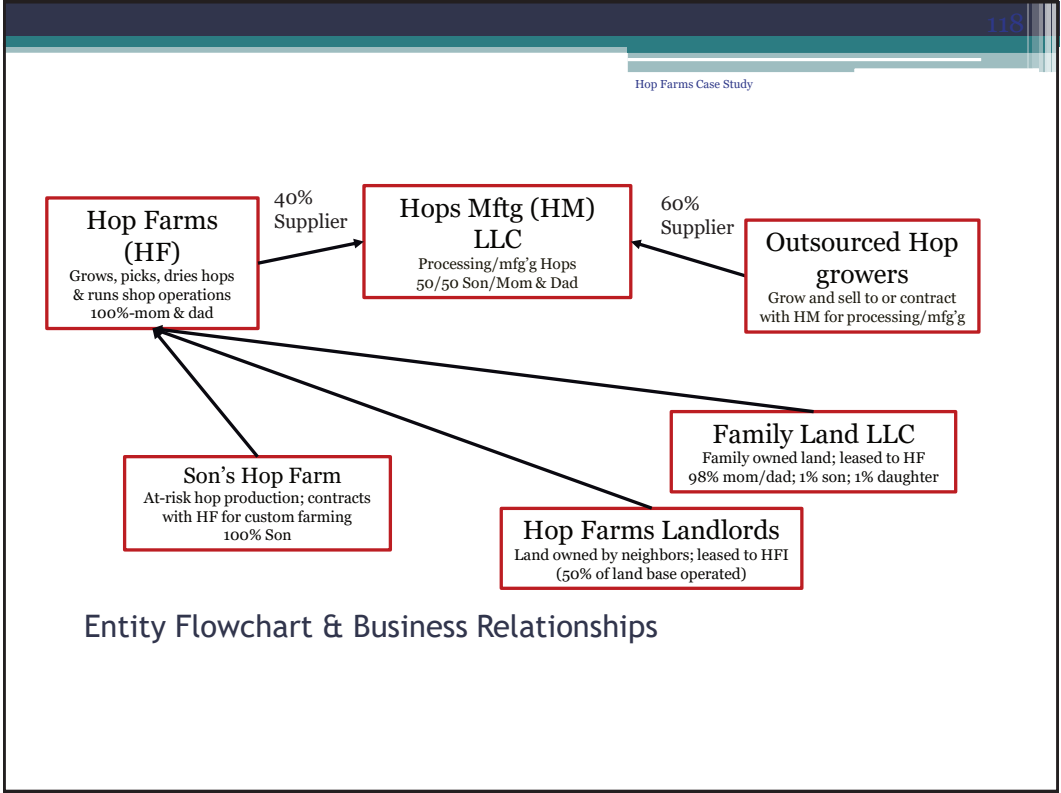
- Professional governance structure key to getting next gen involved...especially if off farm owners involved
- Formalizing org chart key to defining path for next CEO; transparent board takes pressure off CEO being on top
- Transition NOT same as retirement; put “2nd Mountain” on radar screen – David Brooks
- Write it down to make transition succeed
- Boards only effective if professionally run (agendas, right participants, regular schedule)
- More formalized strategic planning process needed
- Management audits, culture audits, CEO performance evaluations critical
- Develop policy before the need

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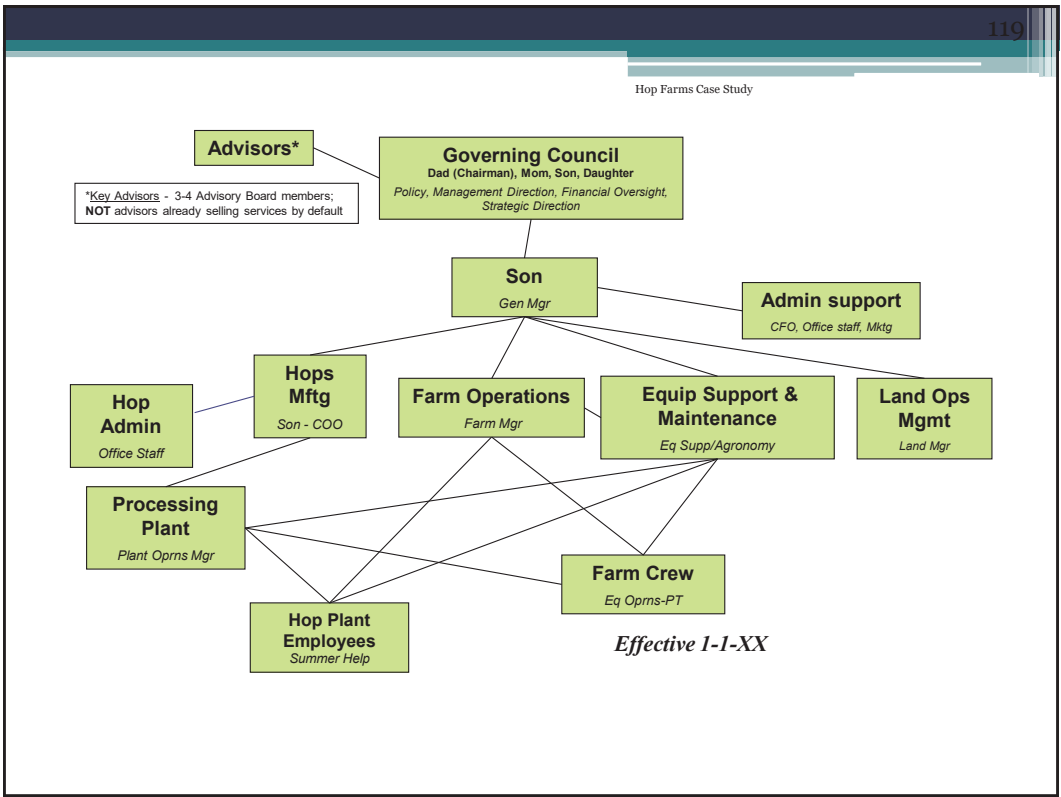
Multiple Entity Governance

- How do we build governance oversight with multiple entities involved?
- What challenges arise?

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Advisors Can Play Useful Roles

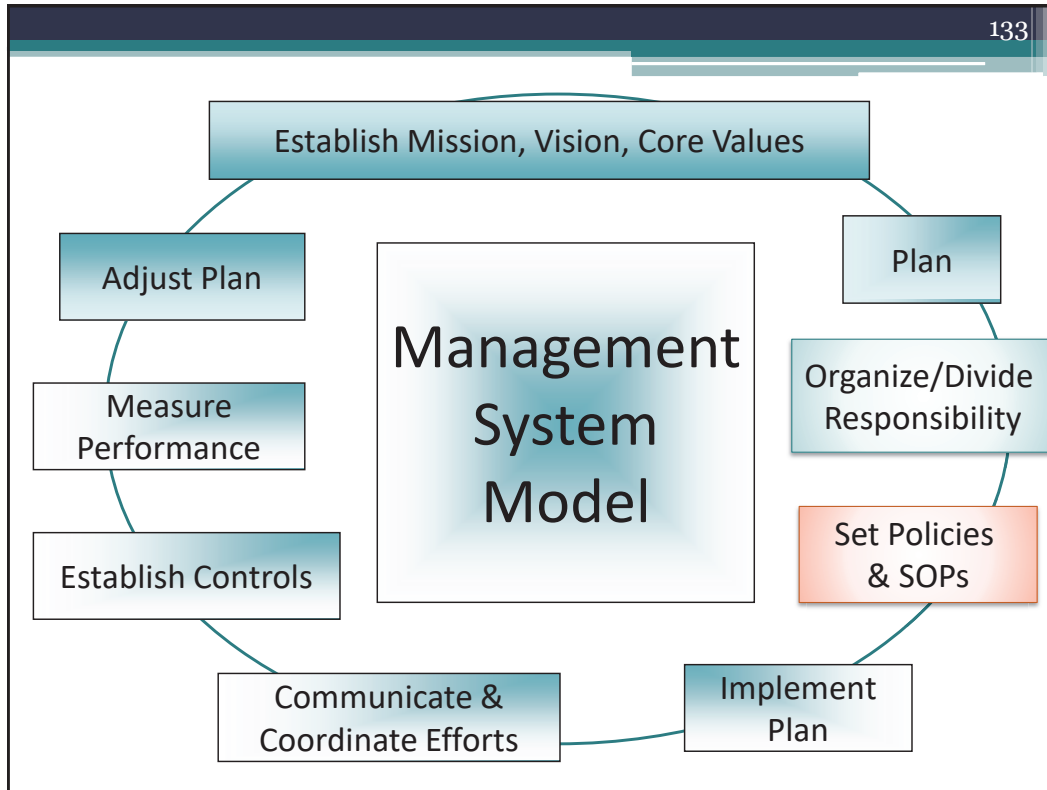
- Defining **board roles**
- Setting **compensation** – board, CEO, “Blood family”
- **Strategic planning**
- **Ownership transfers** (capital injections/withdrawals)
- Getting **incompatible players** “off the bus”
- **Champion for “disenfranchised”** owners
- **Guiding financial analysis** discussions
- **Running effective meetings**—board, family council
- **Transitioning management** duties
- Sounding board for **family conflict issues**

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Peer Groups - Network of peers sharing problems and solutions to operational and managerial challenges

- Confidentiality, trust and open sharing is **ESSENTIAL**
- Opportunity to network with non-related parties to “group think/problem solve”
 - *regulation compliance, succession strategies, strategic planning, compensation, research plots, new technology, financial review and benchmarking*
- Collaborate on shared ventures, market access
- Cost effective access to specialized training, consulting
- Keeps members accountable for action and follow-up

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36% do!

Are Policies Written Down? ...Common "Land Mines"

- Housing
- Company vehicles use
- Room and board
- Expense accounts
- Setting compensation
- Family Business Investment & Withdrawals Policy
- Insider/inter-entity transactions
- Family Employment Policy
- Medical benefits
- Retirement plans/pensions
- Business benefit continuation
- Workdays and holidays
- Vacations, sick, business leave
- Buyout Understandings
- Outside activities

Ask each member of farm management team to write down understandings...then compare notes. (see Questionnaire)

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Why Document Policies

- Forms consensus on practices to be followed
- Communication vehicle for partners & extended families
- Improves job satisfaction & teamwork
- Provides basis for professional review & enhancement revisions

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Compensation Summary		Name: <i>Joe Owner-Operator</i>			
		Year:			
Period	Rate/Mo		No Mos.	Yearly Total	
Salary	Nov-Feb	\$4,000	Base	12	\$48,000.00
		Rate/Hr	Hrs/Mo		
Wages	Mar-Oct	\$0.00	250	0	\$0.00
Cash Salary & Wages Subtotal:				\$48,000	
Employer Pd Soc Sec/Gov't Retirement % Rate:				7.65%	\$3,672.00
		Rate/Mo			
Housing		\$1,200.00		12	\$14,400.00
Utilities - Power, Phone, etc		\$350.00		12	\$4,200.00
Meal Allowance, Groceries			270 days @ \$6.00/day		\$1,620.00
Beef, Farm Produce			1/2 beef - 350# @ \$1.40/lb		\$490.00
Other-		\$0.00		12	\$0.00
Medical Insurance		\$900.00		12	\$10,800.00
Uncovered Medical Reimbursement					\$4,000.00
Other-					
Commuting Pickup					\$3,000.00
Other- Auto Insurance, gas, maint.- Spouse & children					\$4,000.00
Other-					\$ -
Total Wage and Benefits Value (Items 1-7)					\$94,182.00
Bonus- Based on Yearend Results				10%	\$4,800.00
Retirement Contribution @				7%	\$3,360.00
Total Compensation:					\$102,342.00

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Total Hours Worked Per Year	2700	Days Worked	270
	(excl bonus & ret.)		(incl bonus/ret)
Total Compensation per Hour	\$34.88	(line 8/line 11)	\$37.90
Total Compensation per Day	\$ 348.82		\$379.04
Total Value of Non-Taxable Benefits (Items 4-7)			\$42,510.00
Non-Taxable Benefit Analysis @ Tax Rate: *		43.15%	30.15%
Pre-Tax Wage Equivalent (Line 12/(1-TaxRate))		\$74,776	\$60,859
Total Tax Savings (Line 13-Line 12)		\$32,266	\$18,349
Tot. Pre-Tax Wage Equivalent-(Line 9c+ Line 14)		\$134,608	\$120,691
" " " " " - Per Hour		\$49.85	\$44.70
* Tax Table Summary	High Rate	Low Rate	
Federal Tax	28.00%	15.00%	
State Tax	7.50%	7.50%	
Social Security/Gov't Retirement Prgm Tax	7.65%	7.65%	
Total Tax Rate	43.15%	30.15%	

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Survey Results - TEPAP 2023

	Median	2003-'20	2023
Total Value of Compensation		\$80,386	\$98,830
Total Non-Taxable Compensation		\$17,330	\$21,959
Est # Days Worked Per Year		299	286
Est # Hours Worked Per Year		2,899	2700
Total Pre-Tax Salary/Wage Equiv*		\$91,309	\$130,141

*At 36% tax rate

	Per Day		Per Hour	
Total Farm Package Value	\$269	\$346	\$27.85	\$36.60
Pre-Tax Wage Equivalent	\$305	\$455	\$31.60	\$48.0

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Family Employment Policy

- Components to keep professionalism in the family business
 - Vacancy requirement & skills required before hiring
 - Economic capacity analysis to support hire
 - Prior experience/training required; apprenticeships
 - Supervision and reporting relationships/nepotism rules
 - Consultation of stakeholders required before hire
 - Correlating compensation/bonuses with responsibility and performance
 - Merit vs. paternalism as criteria for hiring and advancement
 - Avoiding discrimination - family vs. non-family employees/owners
 - Policies on pre-nuptials

“...Policy before the need”

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Family Business Investment and Equity Withdrawal Policy

Components of Policy

- Who is welcome to invest in farm/ranch?
- Waiting period to become an investor?
- Should everyone be equal?
- Minimum capital to leave invested? ***“Can I ever get my money out?”***
- Is revenue sharing tied to ownership ratios?
- Compensation for excess balances?
- Who monitors capital balance compliance with legal agreements?

Stories...Australian & Montana partnerships

(See Wittman Guidebook – Chapter 6 – Sample Templates)

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Discussion: Role of Professional Advisor in Interpreting K-1s

- Critical issue in general partnerships
- What is SOP for reviewing K-1 capital accounts with clients?
- Significance of capital account balance?
 - With accrual based income tax systems?
 - With cash based systems with significant deferred income?

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Good Management Practice Make Valuation Equity Transparent!

<u>Owners</u>	<u>Book Capital</u>	<u>Unreal Gain*</u>	<u>Total Equity</u>
Partner A	\$1,750,000	\$1,300,000	\$3,050,000
Partner B	1,500,000	1,113,000	2,613,000
Partner C	<u>900,000</u>	<u>675,000</u>	<u>1,575,000</u>
Totals	\$4,150,000	\$3,088,000	\$7,238,000

*Unrealized Gain (Valuation Equity)= 43% of Total Equity Value

...How much of your NW is YOURS vs. TAX owed to government?

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Sample Policy - Capital Investment (or Retained Earnings) and Capital Withdrawals – (Partnerships and Sub S Corporations)

The amount of capital provided by each capital provider is a key component in determining how net revenue of the business will be shared among owners or risk takers. The partners, joint members, or stockholders providing capital shall establish at least annually a common agreement on the base level of capital each capital provider is expected to keep invested in the joint operation. This base level will be established giving consideration to:

Minimum financial constraints or objectives (i.e. targets for working capital level, debt to equity ratio, and borrowing reserves)
Needs of the business to fund future growth
Ratio of ownership each capital provider wishes to maintain for future revenue sharing.

An analysis of capital account balances will be done following final draws for tax purposes on April 15 annually. Capital providers can withdraw excess capital for personal living and tax payments, outside investments, or other needs. Excess funds can also be loaned to the joint operation at a market rate of interest.

If a capital provider cannot maintain a target capital share level after an extended shortage situation, the partners will re-evaluate the at-risk capital resources provided and adjust the revenue sharing arrangement to reflect the change in capital contribution level.

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SOPs and GAPs

30% have these



- Not something new!
- Purpose: guidance documents for repetitious or routine jobs
 - Training tool – new hires
 - Leverages communication for multiple employees
 - Assures jobs are done following BMPs, GAPs
 - Increases safety & lowers cost of production
 - Baseline for measuring job performance, auditing
 - BONUS: Value Added Revenue (ISO9000, Food Alliance)

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Common Applications of SOPs

- Equipment servicing and operating instructions
- Crop agronomic and harvest procedures
- **Farm safety guidelines**
- Food safety practices
- Herd health procedures
- Office functions
- Stock handling procedures

www.wittmanconsulting.com → Downloads:
[Process Improvement Checklist](#)

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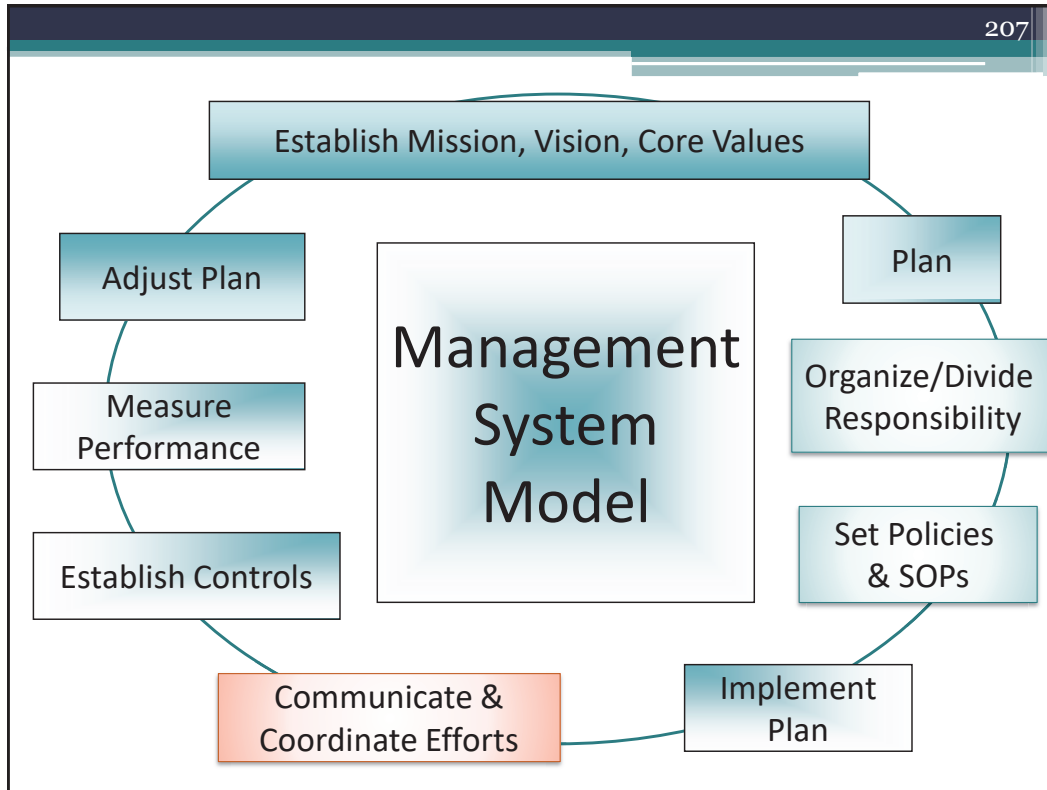
Process Improvement Audit Checklist

This worksheet is designed to assist you in identifying areas in your business where it may be appropriate to standardize process and document SOPs, GAPs, or BMPs. Inventory which of these apply to your business, place an "X" in columns that apply, and note which organizational unit in your business has lead responsibility to initiate and/or administrate the topical area.

<i>Process Improvement Area:</i> (Place an "X" in the columns that apply.)	Applies to Us	Have it in place	Organization Unit or Person with Lead Responsibility
<i>Management System</i>			
Mission, Vision and Core Values			
Farm History			
Goals and Objectives-updating process			
Strategic Planning Process			
Organization Chart/Job descriptions			
Policy Handbook			
Critical agreements documentation (buyout agreements, estate plans & wills, lease arrangements)			
<i>Human Resource Mgmt</i>			
Job Announcement, application & interview processes			
Job Descriptions, org. charts & Performance Standards			
Training and orientation			

Have you taken inventory of your Process Improvement - SOP elements?

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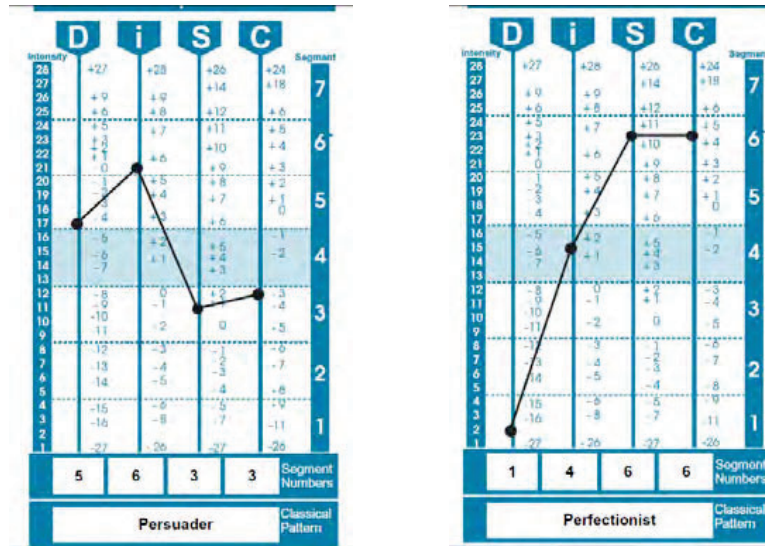
Communication Systems

Do you:

- Agree on rules for communicating professionally?
- Invest in understanding personality styles? **Poll Group**
- Share records openly? **40%**
- Hold Regular Meetings – Staff, Mgmt, Owners, Family? **42%**
- Documentation key understandings? **31%**

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What's your DiSC dimension?



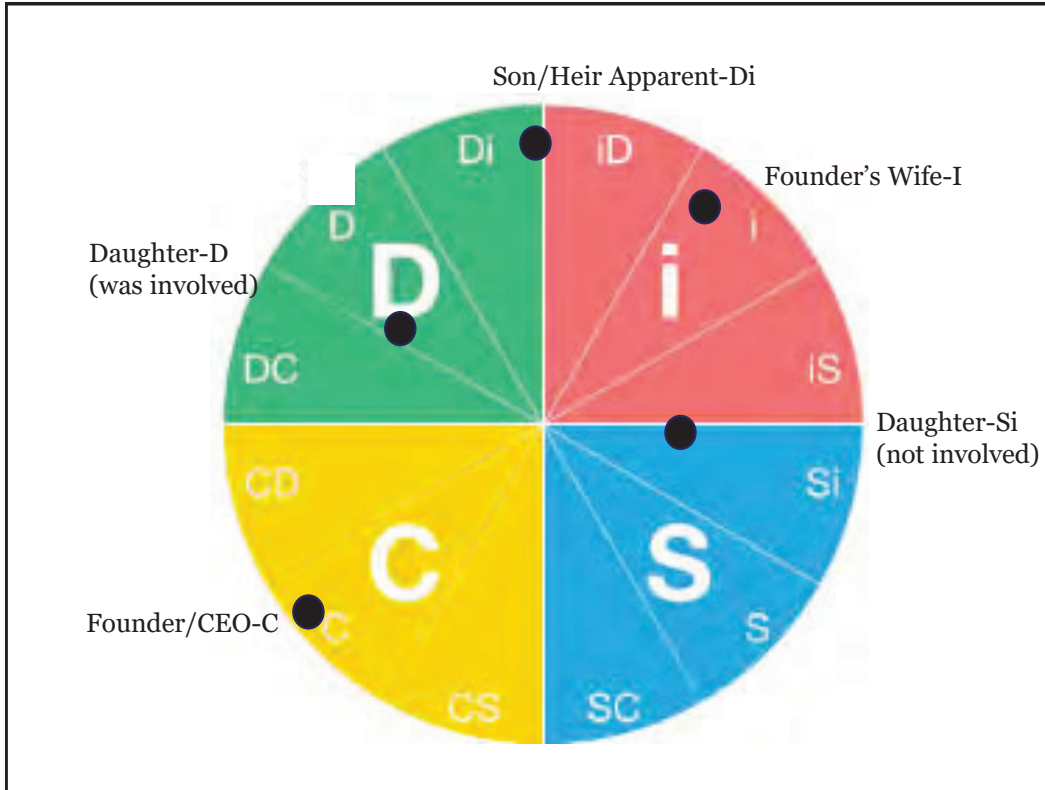
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Communication & Leadership Style Tools

- ColorCode
- Myers-Briggs
- DiSC
- Kolbe
- StrengthsFinder 2.0
- Enneagram



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“Meeting culture” in your business?

- Staff meetings
- Management meetings
- Owner board meetings
- Advisory board meetings
- Family meetings ←
- Family council meetings

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Which Generation Are You? ...how does this affect attitude toward work, family?

- GI Generation (1905-1924)
- Silent Generation (1925-1944)
- Baby Boomers (1946-1964)
- Generation X (1965-1980)
- Generation Y aka Millennials (1981-1997)
- Generation Z (1997-2012)
- Generation Alpha (2013-2025)



Good Reads:

Generation X and the Millennials: What You Need to Know by Diane Thielhold

GenZ@/Work by David Stillman

Understanding Generation Alpha by McCrindle

Staff Meeting Template



Wittman Farms
Weekly Staff Planning Agenda

For the week of / /

<p>Crop / Agronomy Activity</p> <ul style="list-style-type: none"> <input type="checkbox"/> Kinzer- Finish Great Plains turbo <input type="checkbox"/> Puncturevine spraying- roads <input type="checkbox"/> Roundup touchup- field, road borders <input type="checkbox"/> Rye - Sam-Mid (Weds?) <p>Shop Operations</p> <ul style="list-style-type: none"> <input type="checkbox"/> FD75 header <input type="checkbox"/> Kinze wagon - service, scale work <input type="checkbox"/> Grain trailers - air lines, tarps, tires <input type="checkbox"/> JD 1895 misc maintenance <input type="checkbox"/> Pete PU to Lupers <input type="checkbox"/> Mack electrical? <p>Admin & Miscellaneous Projects</p> <ul style="list-style-type: none"> <input type="checkbox"/> Prairie CRP/ICRP strips <input type="checkbox"/> Brian - depreciation/INC books <input type="checkbox"/> FCS financials <input type="checkbox"/> Chem/Fert reconole - SWE/Buch, LTD <input type="checkbox"/> IFTA report <input type="checkbox"/> Deat Forsman SW swap -Cox review <input type="checkbox"/> TU10 aftermath grazing follow-up - Kim C 	<p>Cattle / Timber / Hunting</p> <ul style="list-style-type: none"> <input type="checkbox"/> Get rake home <input type="checkbox"/> Home North hot wire fence <input type="checkbox"/> Move Polly cows Friday <input type="checkbox"/> Rad logging schedule <input type="checkbox"/> Pete's pasture - mow <p>Building & Improvements Projects</p> <ul style="list-style-type: none"> <input type="checkbox"/> Wyatt- driveway gravel <input type="checkbox"/> Reset scale retaining wall at bins <input type="checkbox"/> Bin pit cover- cable, winch motor <input type="checkbox"/> Gravel bins <p>Meetings & Leave Schedules</p> <ul style="list-style-type: none"> <input type="checkbox"/> Pete - <input type="checkbox"/> Todd - <input type="checkbox"/> Tom - <input type="checkbox"/> Carl - McQuay Mer/M, LA Mer/M, Trize AM BCC <input type="checkbox"/> Harvest meeting 7/22
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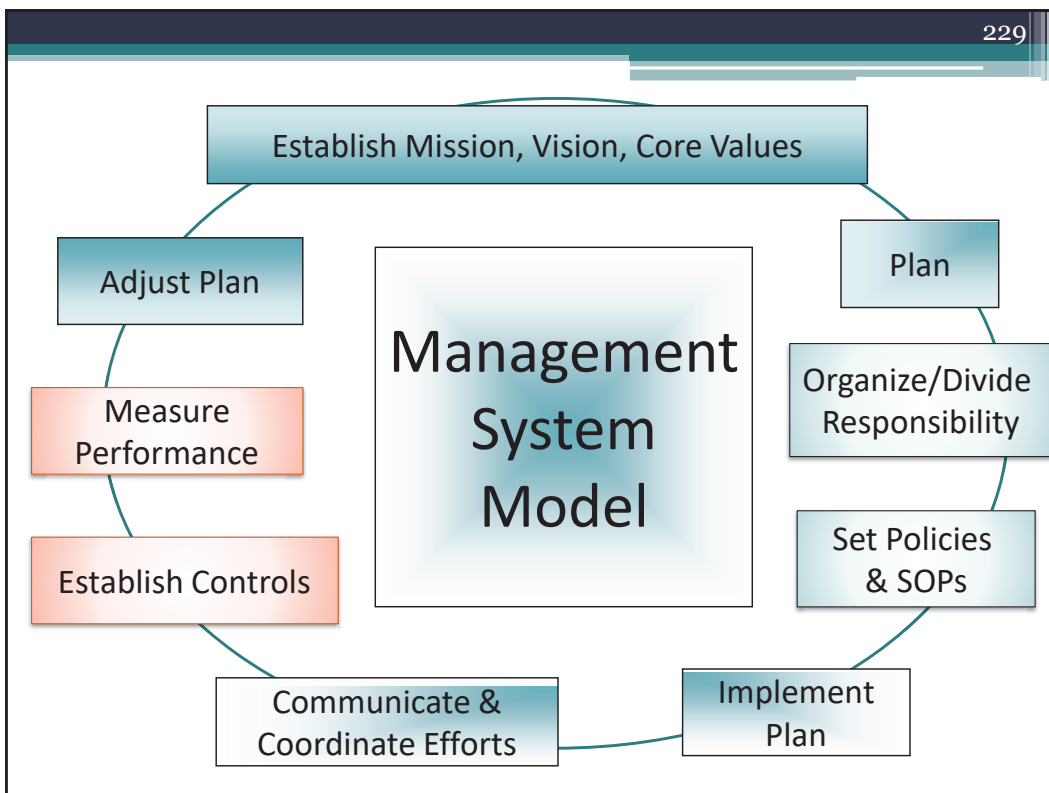
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Sample Board Meeting Agenda

<div style="border: 1px solid black; padding: 5px; margin-bottom: 10px;"> Standard Items </div> <ul style="list-style-type: none"> • Minutes review • Financial Review <ul style="list-style-type: none"> ▫ P&L's, Bal Sheet ▫ Budget Performance & Variance Analysis ▫ Review/approval – budget changes ▫ Peer Comparisons • Policy Review <ul style="list-style-type: none"> ▫ New policies ▫ Existing policy review • Next meeting date & agenda 	<div style="border: 1px solid black; padding: 5px; margin-bottom: 10px;"> Ad Hoc Items - Periodic </div> <ul style="list-style-type: none"> • CEO Evaluations & Compensation Review • Strategic Planning, Growth, & New Investment Opportunities • Ownership & Management Transition Strategies • Capital Purchase/Replacement Plan • Leadership Development – Management and Board • Debt Management Strategies
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Differentiate agenda items as (1) Reporting, (2) Decision-making, or (3) Discussion Where Management Wants Board Input

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Management Control System *Key Elements*

- Comprehensive Financial Record Review Process
- Regular Performance Reviews – Individual & Farm Business
- Ongoing Training & Professional Development
- Use of Outside Advisers
- Good audit and internal control systems

"We manage what we measure."

"People do what is INSPECTED, not what is EXPECTED!"

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Elements of Good Records

- Open to all (...are you kidding")
- Circulated to key members monthly
- Year end statements (5 yrs) → go beyond tax info:
 - Cash vs. accrual **66% adoption**
 - Cost and market value balance sheets; deferred taxes **61%**
 - Profit & cost center analysis – Managerial Accounting Reports **46%**
 - Key ratio calculations - "sweet 16" (FFSC) **27%**

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Financial Management Best Practices ...Score Yourself on These

- Cash versus Accrual Net Income
- Tax vs. economic depreciation
- Cost versus Market Value Balance Sheet
- Deferred taxes
- Cost/unit to produce each marketable commodity
- Why paying tax is a GOOD THING TO DO
- Cashflow Budgeting & Pro Forma Income Projections
- Trend analysis–Key Ratios, annual reports
- Using models to optimize Capital Asset Acquisitions
- Capital Debt Repayment Capacity

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		Ratios & Indicators						
Joe P Sample Cust # Example		FYE 2008	FYE 2007	FYE 2006	FYE 2005	FYE 2004	FYE 2003	
		12/31/2008	12/31/2007	12/31/2006	12/31/2005	12/31/2004	12/31/2003	
Liquidity-WC	Balance Sheet							
	Total Current Assets	288,955	215,020	217,052	217,725	231,100	212,900	
	Total Current Liabilities	144,045	97,697	118,525	128,510	125,175	107,100	
	Working Capital	144,910	117,323	98,527	89,215	105,925	105,800	
	Liquidity Ratio	2.01	2.20	1.83	1.69	1.85	1.99	
	Total Assets	1,208,705	1,171,370	1,202,152	1,191,725	1,184,600	1,166,450	
	Total Liabilities	547,127	545,807	590,050	641,080	661,475	673,650	
	Total Equity	661,578	625,563	612,102	550,645	523,125	492,800	
	Debt to Asset Ratio	45.27%	46.60%	49.08%	53.79%	55.84%	57.75%	
	Equity to Asset Ratio	54.73%	53.40%	50.92%	46.21%	44.16%	42.25%	
	Debt to Equity	0.83	0.87	0.96	1.16	1.26	1.37	
Solvency-D/A		Avg	Projected Cash Flow 01/01/2009	FYE 2008	FYE 2007	FYE 2006	FYE 2005	FYE 2004
	Income Statement (VFP)							
	Ag - Pers.	5 Yr. Avg.	12/31/2009	12/31/2008*	12/31/2007*	12/31/2006*	12/31/2005*	12/31/2004*
	Gross Revenue	517,170	545,028	614,369	495,353	499,187	476,305	500,635
	VFP / Gross Profit	437,949	457,028	530,199	416,503	419,282	398,025	425,735
	Operating Expense (excl. depr. & Int.)	251,140	269,487	281,392	240,933	247,428	252,926	233,019
	Oper. Exp. Ratio	57.34%	58.97%	53.07%	57.85%	59.01%	63.55%	54.73%
	Depreciation Expense	31,948	30,700	28,450	31,600	32,600	35,640	31,450
	Depr. Exp. Ratio	7.29%	6.72%	5.37%	7.59%	7.78%	8.95%	7.39%
	Interest Expense	57,875	40,348	45,481	76,157	52,360	55,580	59,795
Int. Exp. Ratio	13.21%	8.83%	8.58%	18.28%	12.49%	13.96%	14.05%	
Asset Turnover Ratio	0.37	0.38	0.45	0.35	0.35	0.33	0.36	
Net Income From Oper.	96,986	116,493	174,876	67,813	86,894	53,877	101,471	
NIO Ratio	22.15%	25.49%	32.98%	16.28%	20.72%	13.54%	23.83%	
Rate of Return on Assets	10.18%	9.67%	15.05%	9.22%	8.97%	6.72%	10.93%	
Rate of Return on Equity	10.73%	11.56%	20.76%	5.37%	9.46%	4.51%	13.53%	
Oper. Profit Margin Ratio	27.59%	25.57%	33.78%	26.26%	25.60%	20.05%	30.19%	
Income After Owner Withdrawal	75,405	100,493	148,026	47,713	67,224	34,339	78,721	
Term Debt & Cap. Lease Cov. Ratio	1.64	2.11	2.59	1.43	1.56	1.22	1.56	
WCI/AGI	22.58%	30.06%	25.63%	21.52%	19.49%	23.14%	23.11%	
ATR, OPM	ROE, ROA	Debt Service Capacity						

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Sharing Financials with Successors

- Have you done this?
 - If yes, how did it go?
 - If no, what are your fears?
- Successful attempts...
 - Ag lender, facilitator, family business advisor, acct

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Sharing History with Successors

- Do you have this written?
 - Key events and timelines that shaped your business journey
 - Ownership evolution
 - Key players that have come and gone
 - “Skeletons”
- Value in succession planning process
 - Defining your “legacy”
 - Briefing document for outsiders

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Are Key Principals Evaluated?

Can professional feedback change behavior???

- Develop innovative system that fits your business
- Set performance standards tied to job description
- Use disciplined process on regular basis
 - Anybody exempt? (Boss, family?)
- Balance praise & criticism
- Succession challenge:
 - Transfer from PARENTING
 - To mentor, coach, supervisor



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The '5 Lists' Technique

Adapted from Dr. Gregory Billikopf model
Labor Management Farm Advisor, Univ. of Calif

Employee and Supervisor each make a list:

- What strengths do **you** bring to this operation?
- In what areas do **you** need to improve?
- What can **I** (supervisor) do to help you do a better job? (Employee & supervisor compare list)
- What personal develop steps will **you** take to improve performance and skills?
- What are your key goals for the coming year?

[CEO Evaluation](#)

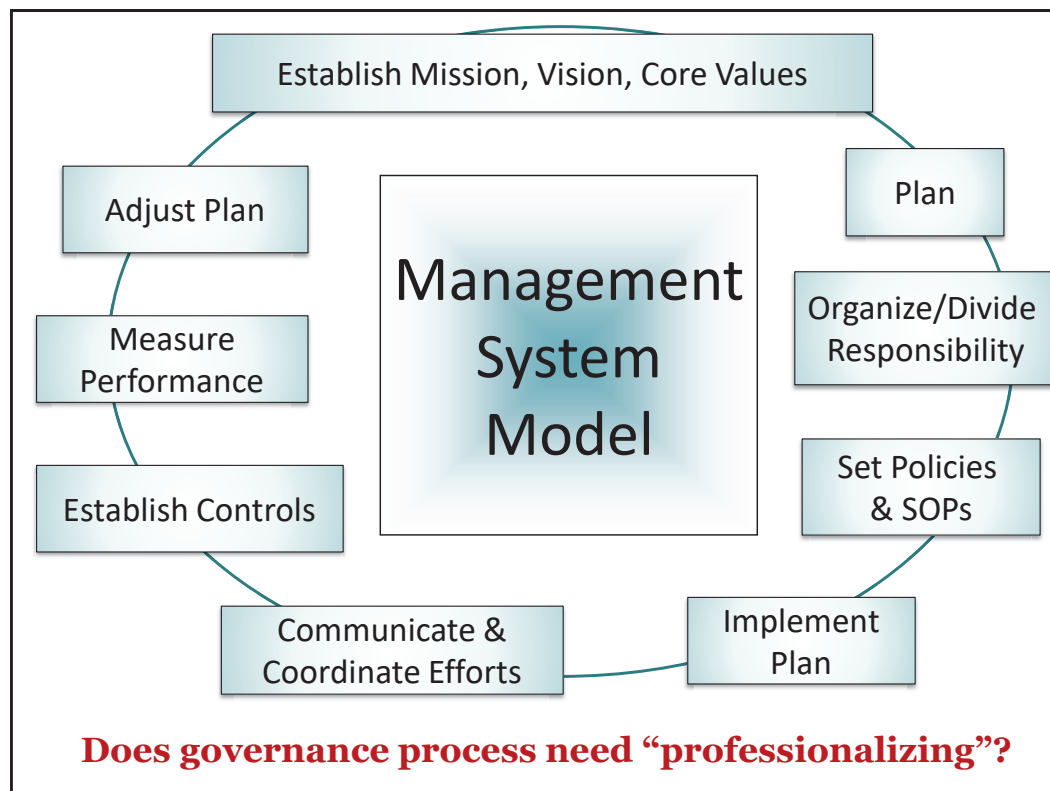
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Management Audits - Key Board Responsibility

- Management Audit Case Study - Key lessons learned
 - Checking box is not same as living it
 - You manage what you measure
 - Management system and governance processes need to be well organized and accessible to all key management team members (cloud system helps)
 - Regular check-ups are essential; keeps client accountable for updating and complying with intentions for continuous improvement.
“People do what’s inspected; not expected”.

[Silent Shade Management Audit-Case Study](#)

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Our Future

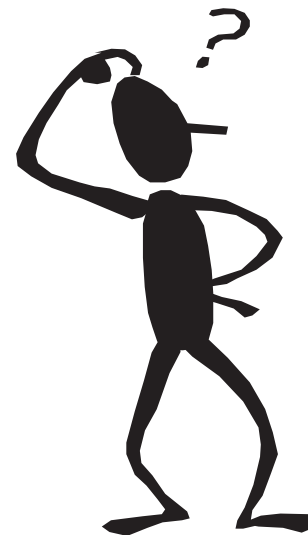


Our Secret to Success:
*Multi-generational
commitment to a
professionally managed
farm business*

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Time for Questions



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