UNIQUENESS OF THE FAMILY BUSINESS

A unique feature of businesses in the rural community is that family ownership dominates the industries and the community. The traditional industries of beef, grain, sheep, dairy and others are primarily family business dominated. In a rural community where traditional agriculture is prominent this style of business also dominates the community. Family businesses are unique in the world of commerce nationally. The uniqueness of a family based business is the intertwining of the principles of marriage and kinship and the use of capital to generate income. Other forms of business as found in more urban communities may not necessarily have the strong relationship between marriage and kinship, sense of heritage concerning the farm, and use of capital and generation of profit.

It is not easy to find a good definition of the family business, particularly the family farm business. One definition developed by Gasson and Errington (1993) includes the following six points.

- Business ownership is combined with managerial control in the hands of business principals.
- These principals are related by kinship or marriage.
- Family members provide capital of the business.
- Family members include business principals, do farm work.
- Business ownership and managerial control are transferred between the generations with passage of time.
- Family lives on the farm.

This attempt at a definition highlights the difference between family business style of commerce and a more urban based style of commerce. The issue concerning kinship and marriage very much brings into focus the relationship of the emotional connection between the principals of the business and the business. In one investigation into family farms Gray (1998) defines family farms based on the amount and type of unpaid labour. This includes a family farm where unpaid labour commits all or almost all the total on the farm, intermediate farms where there is some hired help used to contribute to more than half of the labour required and non-family farms where hired labour contributes the majority of labour on that farm. In respect of this definition the critical issue in understanding importance of a family business as a style of commerce is the absolute inter dependence between economic, emotional and social issues concerning the family, the farm, and the community in which it lives.

ROLE OF FAMILY ADJUSTMENT IN A FAMILY FARM

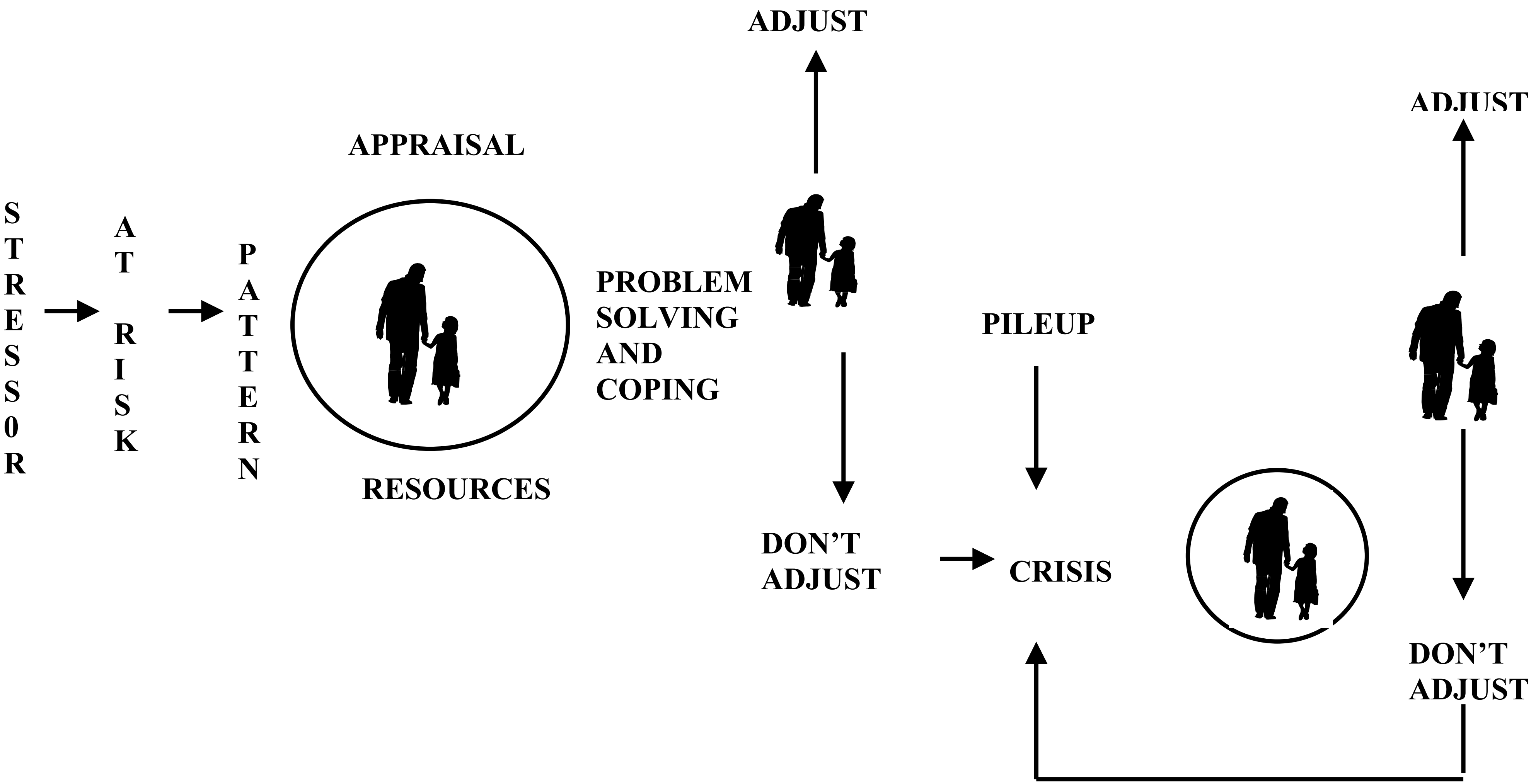
The more consideration that is given to the family farm as a unique type of commerce, the more connection there is seen between the family adjustment and the business of the farm. The whole concept of kinmanship and marriage brings into focus the relationship between the people within the family, history of that family, and the lifetime experience of the principals of the business. The interaction of these issues present the challenges for farming families trying to adjust to the changing industry, weather conditions, or community well being. Family adjustment has been an issue of academic study for many years. Hill (1958) classifies stresses for a family requiring adjustment in terms of succession, dismemberment of a family, loss of morale and unity, and changes to structure and morale. Lipman – Blumen (1975) advanced a more comprehensive scheme for assessing family crisis. Some of her criteria include;

- the origin of the crisis,
- the impact on all family members, or just some,
- the suddenness of the crisis,
- the degree of severity,
- and the length of adjustment.

Irrespective of the definitions of stresses and crisis and their effect on families, the issue that family adjustment to change is different to an individuals adjustment to change in a business context is a critical issue that needs to be understood.

In the same way as the action learning cycle is used to enhance the individual's ability to cope with change, and the way that group dynamics in relation to a business Kilpatrick et al (1998)), have been studied, the issue of family adjustment requires a different type of modelling. The use of these models is merely to give a diagrammatic representation of suggested likely pathways that issues or changes can be explained and perhaps predicted. A model for family resistance as presented by McCubbin and McCubbin (1995).

Family Resilience diagram



From the model above the critical difference between a family adjustment model and other change models used by individuals and groups is the effect that stressors can have on all aspects of the family, not just the business. The model identifies that any family has four major features:

- The pattern of living that is the accepted norm for that family.
- The resources at the family's disposal.
- The problem solving and coping ability and history of that family.
- And the appraisal or decision making ability of that family.

You will notice that this model suggests that those four aspects of a family are in a cyclic mode. This means that the change to one will in turn change one or the other aspects of the family. For example, McCubbin (1995) indicates that family resources include personality type, education, health, etc, family system resources represents the relationship within the family, the shared power within the family and patterns of support and resource exchange.

The model pictured above indicates that when a stressor has been identified, be it personal or financially based, and that the family deems that it is at risk to that source of stress there is then pressure to alter the cyclical mode of their lifestyle of their business. There is pressure to change the pattern of living and business, pressure on resources, the ability to solve and cope with this source of stress, and then there is an actual decision phase. This decision or appraisal means there will be a change to the pattern of living, the balance of resources and likely problem solvers for the future. The implication of the model is that the application of the stress gives this family situation the opportunity to change.

The middle of the model indicates where the family adjusts to the change or doesn't adjust. By adjust we mean the features of the cycle of the model actually change, so they are different to what they were. There is a different pattern, changed resources etc. Where the family chooses not to adjust, that is to ignore the stress even though it has been identified that the family business is at risk the model then moves on to another phase. This new phase identifies the potential for crisis and pile up of stressors and increasing the degree of risk to the family business. If the choice is made not to adjust the crisis develops because there is more pressure, less time for discussion and negotiation and more emotional drain on those members of the family business. The cyclic pattern of living is still relevant and the family has another opportunity to alter the pattern, resources and problem solving. Therefore the family business has another opportunity to reorganise itself for the future. However if the family still chooses to not adjust, that is to ignore the stress the model re-focuses the attention on the potential of crisis. This implies that the crisis gets worse, the pressure on the family is higher, the likelihood of a reasonable outcome is unlikely.

McCubbin et al (1983) have suggested that if the family chooses to adjust to the source of stress the benefits include;

- a stronger family bond,
- individual members develop from the experience,
- the family unit develops because of its successful experience in dealing with the source of stress, and
- family independence and control is maintained and improved.

However, if a family business continues to not adjust to the source of stress the likely outcome will include;

- a decrease in the family bond,
- individual development will be decreased
- family unit development decreases
- a loss of independence and control particularly when dealing with financial pressure.

The message in this model is that the development of support networks though which families gain practical information, understanding and a sense of self worth is critical to their ability to develop as a family business. The message for service providers dealing with family farms should be that an improved understanding of factors affecting family adjustment and the strong relationship between family adjustment and business success should allow for improved quality of service.

THE DIFFERENCE BETWEEN SOCIAL CAPITAL OF GROUPS AND FAMILY ADJUSTMENT

The issue of social capital and facilitators learning and changing communities is an actively researched topic. Kilpatrick et al (1998) have studied groups of farmers to come together regularly to exchange information and experiences through a consultancy service. This group of networks is built up through graduates of a series of learning exercises given by a firm of private consultants. The development of the Executive :ink (McCosker 1999 personal communication) is to enhance the learning of individuals through experiencing group activity. These meetings are held a few times a year and are a residential workshop. Individual businesses come together and share their experiences and their likely plans for the future. The members of the group have the trust and security of each other because of their experience and their common interest in their industry and the individual gets strength, emotional support and technical knowledge through this process.

The difference between this and family adjustment is that the very same source of stress for example, financial or weather change, can be experienced but the group learning is much less personally threatening and doesn't have the same pressure on the accepted life pattern of the family business. In the executive link process the individuals gain energy from the group then return home to implement suggested changes or modifications to their business. There is a very much business focus on the activity at the same time as enjoying the emotional support and common interests of the group. This group learning is much less threatening to the individuals then its pressure on family adjustment and multi-generational family farm.

THE NEED FOR CONTROL IN THE FAMILY BUSINESS

In recent research carried out in Central Queensland the issue of control was identified as a major factor affecting the successful adaptation of families to pressure. Reeve and Durkin (1999 unpublished data) found that by asking rural support workers, farm financial counsellors, and farm legal aid specialists that there was a common theme between enabling factors and limiting factors in the families ability to cope with change. A number of on farm service providers were asked to give broad outlines of successful and unsuccessful family enterprises that have had to cope with financial pressure during the drought and farm crisis in Central Queensland during the '90s. Industries investigated included sheep, cattle, grain and horticulture. The area covered was from the Capricorn Coast to Central Western Queensland. These service providers identified in unsolicited assessments that those clients who successfully coped with crisis had a stronger sense of control in their lives than those who did not. In 31 case studies it was found that the personal need to take control of the situation as opposed to being a victim in a situation drove family business to make whatever decisions needed to be made to retain the essence of the family.

This study agrees with the overseas published information that the issue of control is a major limiting factor to family's ability to be resilient to any source of stress, particularly financial stress.

Sources of stress most common in family farms as published by Lovelace (1995) include;

- finances,
- personal illness,
- inadequate social institutions,
- generational and family pressure.

The response by husbands and wives also varies to sources of stress and their relationship between spouses is important in how the individual in the partnership respond to this stress. Rosenblatt and Keller (1983) reported a great deal of blaming in marriage where related to economic distress. Lorenz et al (1993) similarly found that for husbands wives support buffers economic pressure and husbands sense of control over events. For wives husbands support directly reduced their depression and buffers the effects of economic pressure on depression.

CURRENT PERSPECTIVE ON FINANCIAL VULNERABILITY OF FARM FAMILY BUSINESS

If we accept then that family farms are a unique style of commerce, and that family adjustment is a critical part of the success or failure of a rural family farm business, and that financial stress is the major source of stress for family farms in Central Queensland in the year 2000, we should then look at the likely threats to farms in Central Queensland today. The growth of the Farm Financial Counselling Service and Rural Support services in the last 10 years has indicated an increase in financial threats to farmers in Central Queensland. A primary role of Farm Financial

Counsellors has been to help people re-organise their debt structures, particularly in response to pressures from financial institutions. Let us look at how the debt situation has changed in Queensland in the past few years.

Table 1: Number of producers debt loads over time.

- Number -

Number	1999	1998	1997	1996	1995	1994
Beef	5,145	5,157	5,270	4,852	4,981	5,311
Cotton	720	589	418	311	263	222
Dairy	997	1,233	1,173	956	970	912
Grain	1,712	1,653	1,382	1,502	1,129	1,344
Grain / Grazing	1,344	1,778	1,390	3,022	2,629	2,174
Horticulture - Trees	1,270	648	976	811	713	759
Horticulture - Vegetables	584	868	555	351	325	414
Intensive Livestock	624	656	449	410	457	495
Other	3,091	3,655	1,698	1,395	1,357	1,055
Sheep / Wool	563	651	700	810	1,233	1,224
Sugar	2,784	2,844	3,127	2,379	2,236	2,365
Tobacco	290	32	37	31	27	257
Total	19,124	19,764	17,175	16,830	16,320	16,532

Table 2: Dollar value of debt loads over time.

- Dollar Value -

Value ($'000)	1999	1998	1997	1996	1995	1994
Beef	1,860,922	1,496,115	1,672,247	1,735,456	1,421,908	1,428,433
Cotton	611,821	416,195	233,655	185,738	153,170	131,069
Dairy	279,623	263,385	255,941	212,433	213,691	192,445
Grain	351,215	376,959	364,211	350,835	212,569	286,190
Grain / Grazing	513,685	504,772	396,849	598,633	552,874	466,241
Horticulture - Trees	330,307	226,235	255,657	219,004	194,205	162,427
Horticulture - Vegetables	136,572	199,909	122,725	107,599	86,935	82,572
Intensive Livestock	197,645	252,206	119,107	111,357	116,084	129,620
Other	358,066	526,862	360,976	282,920	206,560	138,914
Sheep / Wool	162,844	187,316	212,498	250,742	350,687	321,098
Sugar	1,028,406	831,180	824,612	663,444	555,404	512,222
Tobacco	40,642	3,928	7,057	5,169	4,581	23,240
Total	5,871,748	5,285,061	4,825,535	4,723,330	4,068,668	3,874,471

TOTAL DEBT IN QUEENSLAND

From table 1 we can see that from 1994 to 1998 a range of farming industries have changed the total borrowings. From the beef industry to 1994 to 1998 the number of producers with a debt has remained over 5000. The dairy industry from 1994-1998 has shown a 300 farm increase in the number of farms borrowing money. The sheep industry for a similar has shown a decrease of nearly 600 producers carrying a debt. The sugar industry has gone from 2300 to 2800 borrowers. This table reflects that from 1994 to 1998 total number of farmers borrowing money has gone up by 3000 enterprises. Table 2 shows us that the total debt for Queensland for farming has gone from 3.8 billion dollars to 5.3 billion dollars over 5 years. This is at a time when prices have been coming down, costs have been coming up and there is a greater degree of uncertainty throughout agriculture. Specifically the beef industries borrowings have sat on about 1.4 billion dollars in the last 5 years with a peak of 1.7 billions dollars in 1996 when there was historically low prices and continually dry weather. The dairy industry borrowings have gone up from 192 million dollars to 263 million dollars, the sheep industry borrowings have come down from 320 million to 127 million dollars.

What does this all mean? What these figures mean is that in the last 5 years the amount of debt has gone up and the number of producers with debt has gone up. When and net farm incomes are going down total borrowings seem to be going up. This may mean that the relationship between business decisions and personal decisions for a farming family are changing. For logically you would think when the business is performing poorly then economic exposure should decrease rather than increase. McGovern (1996) in a Queensland economic forecast predicted that the net farm income would be zero by the year 2017.

TYPE OF BORROWINGS

The style of borrowings has changed as well as the total amount of borrowings. The most traditional form of borrowings for family farms has been Interest plus Principle term loan with a starting a date and expected finishing date. This type of organised borrowing similar to a home loan identifies an actual year in which the loan finishes. This demonstrates the borrowers ability to service the loan, profitability of the enterprise and demonstrates an increase in equity eventually leading to 100% ownership of the enterprise. This style of traditional borrowing is very common for the whole of the community and compares quite well with home loans utilised by any Australian family.

However in agriculture the types of loan facilities vary greatly. The most common type of loan facility now used in Queensland agriculture is an interest only facility less than 5 years. This type of term loan which matures normally every three years, now covers 37% of a sample of loans taken out by farmers in Queensland. The Queensland Rural Adjustment Authority (1999) debt survey also indicates that the majority of money borrowed is for farm capital, making up a total of 45% of the total borrowings to Queenslanders. This means that almost half the total borrowings. There is no compulsion for the banks to accept a renegotiated loan position at the end of the three years. In a family based business that has a strong relationship between marriage, kinmanship, sense of heritage and business this seems to be a high risk type of facility.

The reason why this facility is the most common type of loan utilised at the end of the 1990s is that the repayments of an Interest Only facility are less than that for an Interest plus Principle facility. There is perception that the type of loan can be renegotiated in three years to perhaps include an interest plus principle facility, and that the industry will turn around within that time frame to allow for much more profitable venture.

It is also interesting to note in the QRAA (2000) debt survey that the age of the farmers that had the majority of these borrowings is between 45 and 65. This means that people at the middle to end of their farming career are placing themselves potentially at risk when others in the community of a similar age are planning for their retirement and thinking about enjoying the benefits of their working life.

From a banking perspective the 3 main things that a financial institution looks for in a low risk customer are;

1) profitability; which means that it is clearly evident that yearly income exceeds expenditure. This is easier to demonstrate in some industries than others. Industries that have very large once or twice year harvests of either animal or plants are more difficult to demonstrate than industries that have a monthly income such as dairy.
2) all repayments need to be made including leases; any likely deferments need to be identified quickly.
3) regular improvements in equity; interest only 3 year loans and changing land values of farm make for inaccuracies in regular assessments and equity.

To avoid conflict with a financial institution it is very important for a family farm business to identify its family strengths, its stage of life and its financial limits. There are two basic principles that will help reduce the likelihood of older farmers becoming involved in drawn out crisis with their financial institutions.

Table 3: Relationship between age, income and debt

AGE	25-35	35-50	50-70
Income	X	X	X
Debt	5X	3X	1xX
			7xX

Table 4: Relationship between financial needs and equity.

FINANCIAL NEEDS				
EQUITY		Cash needs	Debt Payments	Succession
	60%			
	80%			
	100%			

Table 3 the relationship between annual income, total debt and age of the farmer should give some guidance to families who feel uncertain as to the security of their present position. From table 3 you can see that by the time the farmer is between 50 and 70 the total debt owing should equal the farm income per year. A total debt of 5 to 7 times the annual income is placing the family farm at great risk particularly at that age. From table 4 the relationship between cash needs and equity should help identify technology needed to address financial limiting constraints. There should be for each industry technology that suits for example a 60% equity farmer who has short term cash needs, and different technology for a farmer with 80% equity with debts servicing problems as opposed to current cash need problems. In times of climate extremes 100% equity farmer may still have short term cash limits. This is often the case found in times of drought or droughts or flooding or severe market collapse. Perhaps technology developed for agriculture has been ideal for someone with 100% equity with no major cash limits, no debt repayments but is concerned about enterprise development and succession planning.

Research carried out in Central Queensland in 1998-99 by Reeve and Curthoys indicated that farmers themselves had a different perspective the effect a farm debt has on viability than do the service providers. This research indicated that the farming families were more concerned about size of debt than the management of debt and also felt that the debt itself was a personal issue rather than a business issue. For those reasons it is important for farming families;

- to plan to eliminate debt at some stage in their lives,
- identify the relationship between their age, stage of life, income and total debt, and
- decide if they are comfortable with that relationship.

They need to foresee the debt structure in terms of their life goals. Professional advice should meet family and business needs and clear outlines to professionals of the family needs is important.

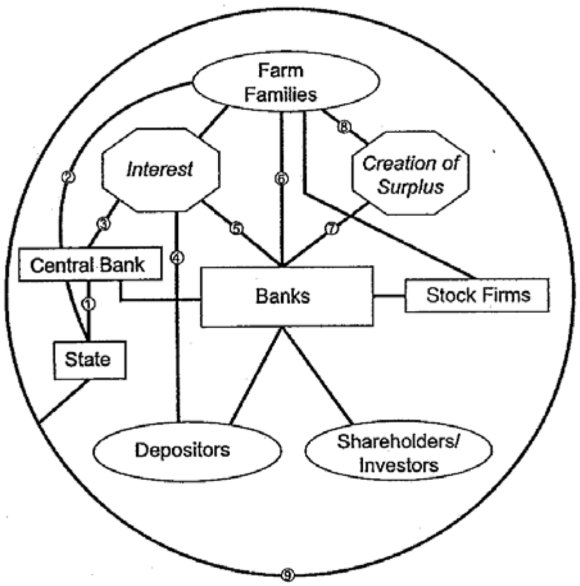
FURTHER EVIDENCE FOR THE UNIQUENESS OF A FAMILY FARM

Argent (2000) in a review of public farm credit in Australia and New Zealand uses a South Australian case study to highlight the changing relationship between financiers between 1950 and the year 2000.

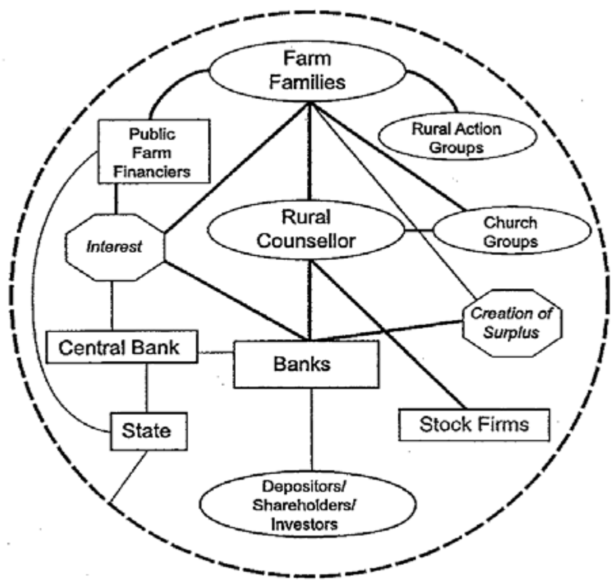
Table 5

Kangaroo Island, South Australia Case study Argent, N. (2000)

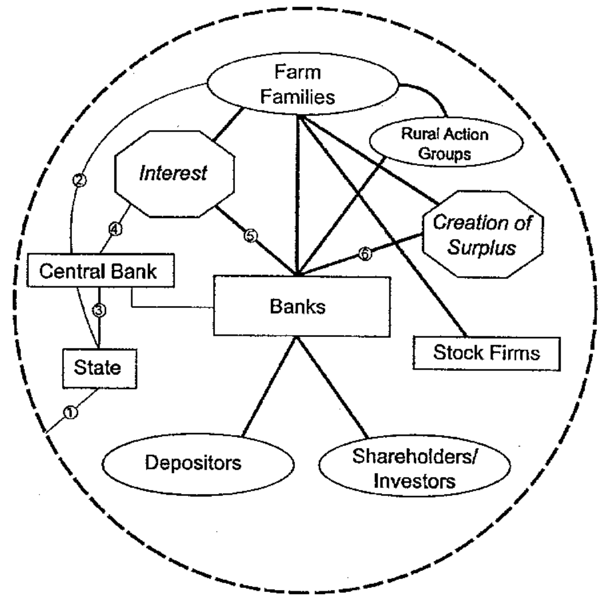
Agriculture - Finance Relation 1952-1983



Agriculture - Finance Relation in crisis



Agriculture – Finance Relation
1983- present



In table 5 the network of a family farms finances rotated clearly around the bank and the intent to create profit and manage expenses. From 1952 to 1983 the network rotates around shareholders, investors, depositors, the relationship between the bank and the central bank, and the business of the family farm itself. In the same case study the financial relationships in a time of crisis change dramatically. New players in the network include rural counsellor, rural action groups and church groups. The banks network includes shareholders, a weaker relationship with the central bank and competition with public farm financiers.

This change in financial relations in crisis highlights the increase in need of emotional and community support for the individual family farms in an isolated community, in this case Kangaroo Island. In this study Argent (2000) argues that the change in the banking structure in Australian Agriculture in the 1950's to the year 2000 has played no small part in the increased risk faced by family farms. He also argues his research demonstrates the need for continual case study research to have a greater understanding of the effect of major institutional restructuring has on rural communities. Also this change is not limited to Australia, but to Australia and New Zealand. Other researchers particularly in Northern America, have shown the changes to government assistance programs in the early 80's by the Reagan government increased the risk faced by small family farms by significant changes to the lending facilities. (Daley, pers. com.)

CONCLUSION

There is significant need amongst service providers for agriculture in Queensland to identify the types of commerce active in rural Queensland and to develop services to meet the needs of those types of commerce. If we accept the family farming is;

- unique style of commerce that has specific value as a style of commerce, and
- it does contribute significantly to the nation's wealth, then services provided to these businesses can be more finely tuned.

In the South Australian study and as experience in Queensland has shown, as financial stress increases families have trouble adjusting and emotional and heritage values come very much to the fore and often dominate business decisions. To avoid this situation would it be possible for service providers to;

1) identify that farming is a unique style of commerce,
2) clearly understand major financial constraints facing that style of business,
3) identify technology suitable to the different stages of both the farming business and of the people involved,
4) relay the conditions of these businesses to policy makers in a clear non-threatening way to allow for continual fine tuning of the services provided,
5) improve the rural service providers network to strengthen the links between technology developments, the financial institutions and the social welfare organisations.

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