

# Staying in business from one generation to the next

More than 90% of South African farming operations are family owned. **Annelie Coleman** spoke to **André Diederichs**, family-owned business specialist and independent consultant, to find out the secret to running these businesses successfully and the pitfalls they face.



**ANDRÉ DIEDERICHS**

## How big are family owned businesses (FOBs) in the commercial agricultural sector of South Africa?

They form a cardinal segment of the economy. FOBs make up about 80% of all registered businesses in South Africa.

According to Agri SA, approximately 95% of commercial farmers operate as family owned businesses. The secret of long-term sustainability for these businesses is to remain entrepreneurial.

It is about how the current generation motivates, empowers and encourages the next generation to feel good about continuing the family business.

## What are the main challenges for FOBs

## today, given the economic realities of increasing production costs, dwindling profits, land reform and so on?

Globally, and SA is no exception, there are three main challenges for FOBs:

1. To keep the entrepreneurial flair burning – not only to survive, but to thrive in a global economy. These businesses have to think global and act local. They have to remain competitive and keep outside competition in mind so that they can determine how to participate in global markets. A successful business creates scarcity and defends its territory.
2. Proper succession planning is essential to allow a smooth transition

from generation to generation. Only 30% of FOBs move successfully from the 1st to the 2nd generation and 14% from the 2nd to the 3rd generation.

This is primarily because succession is not considered to be part of a business strategy. This is wrong! Succession is an integral part of long-term business strategy.

3. Sound governance structures are vitally important. It is crucial to safeguard the business against family emotions.

**BELOW:** Nearly 95% of farming operations in South Africa are family owned, while approximately 80% of all registered companies in the country are family owned.  
ANNELIE COLEMAN

Governance structures prevent emotions impacting on business decisions.

A Family Business constitution is the best tool to ensure sound governance principles. Such a constitution

determines long-term vision and rules for succession and values family and business objectives. It removes uncertainty and gets members of the family on the same page.

## How should FOBs position themselves in the modern commercial agricultural sector?

They either have to create economies of scale by farming together to generate large product volume or create scarcity by not producing products of which there are surpluses. Servant leadership such



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as that modelled by Christ is another success factor.

One must remember that wisdom is achieved through experience.

The moment the role players in a family business lose their passion for it they should move on.

### **What is the most common mistake made by FOB's, particularly in terms of succession and how should it be addressed?**

The most common mistakes with succession are:

- Procrastination! Succession is not some vague future plan. It is a process that must start now to ensure you have an exit plan in place should the current owner-manager die, become disabled or retire.
- Automatic selection of the oldest son as the successor is another mistake made in many cases. The oldest child is not always the best choice for the business which is there to create wealth for the family. It is wise to choose the successor most suited to act in the interests of the family. If family members are unable or unwilling to take over, successors can be chosen from outside the family. The successor is, however, still accountable to the family.

### **You've emphasised the empowerment of successors. What did you mean by that and why is it so important?**

Successors must be exposed to the business from a young age to learn its challenges and

know the people who work in the business. Appropriate training is also important.

Agricultural production is a highly competitive environment and a farmer must have scientific, technological and business insight to run the business successfully.

Successors should be exposed to the decision making process early on. This affords them the opportunity to learn from their mistakes while still under the guardianship of the current management. It makes no sense for family heads to keep their wills secret.

### **'THE OLDEST CHILD IS NOT ALWAYS THE BEST CHOICE FOR THE BUSINESS.'**

If members of the FOB are fully informed about future plans, there is a smooth transition from one generation to the next.

### **What about the issue of land reform?**

The issue of land reform in South Africa is a reality. FOBs must take cognisance of it and plan accordingly. For instance, if a family farms in an area where people were forcibly removed during the apartheid era there is a potential for land claims.

The fact remains that South Africa will never be a good place for any of us until it is a good place for all of us.

### **When should the successors actually take over?**

It will differ from business to business but it is wise to

have rules in place that determine the maximum retirement age (for example, 65) for owner-managers. This is common practice in all businesses and should not be different in a family business. After all, a family-owned business is just a family in business where sound business principles and rules should apply.

### **Boplaas in the Koue Bokkeveld is in its 10th generation and still owned by the same family. How did this business survive and thrive?**

Boplaas values stewardship greatly.

Stewardship is most important for all family owned businesses because it steers these businesses on the right course to ensure a sustainable operation for future generations.

A decision taken today should be measured against the impact it will have in the future.

I once asked the Boplaas team what they did to survive so many generations. The answer was that they were taught from generation to generation that the business does not belong to the current generation but is borrowed from the children.

The Boplaas motto is to plant trees that will provide shade for generations to come.

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