

# **Better Business Management and Succession Planning in North Queensland Extensive Family Beef Businesses**

A report for



By Alison Larard

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# Executive Summary

At first glance the extensively operated North Queensland (NQ) beef industry appears a simple agricultural production system involving the grazing of adapted cattle on predominantly native pastures grown under reasonably reliable monsoonal conditions. Production is carried out with scale, and on the surface looks to involve relatively few inputs, minimal management activities and low capital requirements, in essence, a low-cost system. In reality, the NQ beef cattle production system is affected by a multitude of variables, each having a bearing on productivity, profitability and return on investment. Property values are influenced by producers' land trading, seeking scale advantages, or pursuing 'fair' succession. Additionally, superannuation funds and private investors with long investment horizons look to 'park' funds in the perceived stability of the northern beef industry. The result is land prices well exceeding production values.

Under these conditions, hundreds of families run large operations in often isolated circumstances and unforgiving conditions. They have built their businesses through hard work and calculated risk taking. Predominantly husband and wife businesses, they run big herds across extensive rangelands, mostly with the assistance of their families and some contract labour. They have generally undertaken some property development where viable to do so, mostly involving strategic fencing and stock watering systems, providing better herd management and utilisation of the native grass base, with some areas improved using introduced pasture species.

As this group of industry pioneers enter the twilight of their careers, it is timely to seek out ways to address the challenges facing extensively operated NQ family beef businesses. Better business management involves identifying the issues as they relate to each individual situation, developing remediation strategies and acting to tackle them. A whole of business approach - simultaneously addressing land management, production, business, and family issues - can assist. Succession folds into this process, bringing business renewal via the next generation's enthusiasm and potential for updating technical capabilities. Encouragement to adopt an entrepreneurial mindset allows for new ideas to be examined and new business opportunities to be considered.

Motivated by family legacy, there is a culture of succession 'at all costs'; a concerning approach encouraging the continuation of the family grazing tradition regardless of the dynamics of the situation. Many families need to better assess the viability of their situations – both *financially and personally* – to reduce the risk of the realities of intergenerational transfer becoming overtaken by emotion and sentimentality. Assessing financial viability involves analysing both the long-term profitability of the enterprise and the family's wealth creation from capital gain. The capacity of family members to collaborate effectively to achieve this outcome helps identify the personal viability of the situation.

Although succession in the northern beef industry has traditionally been a long-term intergenerational partnering process, there are alternate succession models. A *separate enterprise* within the existing farm business may provide family members some autonomy. Pursuing a *professional detour*, running a non-farm business for the family, or taking employment elsewhere works for some. Establishing a stand-alone, separate business by *purchasing another holding* is also an option, where parents act as guarantor to support the next generation into their own property to establish an independent business. These options are not new thinking but rather require more rigorous consideration sooner as part of a beef business' pre-succession process.

For any of this to be achieved, independent guidance and support is generally a necessity. Independent advice includes free services - the Rural Financial Counselling Service North Queensland (RFCSNQ), Department of Agriculture and Fisheries (DAF) beef extension officers and agricultural economists, and Legal Aid services. Paid options include accountants, financial planners, legal advisors, and agricultural consultants. The guiding principle is that regardless of the services engaged, they do not offer advice outside their specific field of expertise. Ideally, the process is pursued collaboratively, with the guiding principle that all parties 'play the issues, not the people' involved, keeping the process on track to reach an outcome that is palatable, if not liked by all. These service providers need to be focussed on determining financial and personal viability before proceeding with the process.

Targeted discussion groups are a less obvious opportunity to foster better business management and succession outcomes for NQ extensive family beef businesses. They may help to foster peer-to-peer learning and support, provide knowledge transfer, accelerate adoption of new technology, and develop networks and leadership opportunities. They are an opportunity to challenge cultural norms, overcome the tyranny of distance and remoteness, support intergenerational transition, and enhance capacity development for the inherently independent NQ beef producer.

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# Foreword

The Nuffield experience can be overwhelming. Your understanding of your industry, business, and topic is challenged, and you risk becoming inundated with information and expert opinion. I was feeling like this a few months into my scholarship when Rick Britton contacted me. Rick is an energetic, straight-talking man, a producer on 180,000 hectares near Boulia in northwest Qld. He is a stalwart of the industry, a promoter of better business and land management, and the Boulia shire mayor. I am fortunate to sit on the RFCSNQ Project Management Committee with Rick and find his insights invaluable. To paraphrase, Rick's comment, *"I was thinking... why don't we deal with the older generation when succession planning by not even using the word 'succession'? So many people have had such a tough time with it. Why don't we just call it 'business planning'?"* That was the 'light bulb' moment for this report.

Rick's comments were not about reinventing business management theory. He was getting at the issue from a practical viewpoint, highlighting the opportunity for NQ cattle operations to move away from the negativity of family tensions synonymous with succession, and focus on trying to build a positive business strategy based on the generations working together as an effective team. Part of this process involves entering and leaving the operation in an orderly fashion and transitioning management control of the resources to achieve this. Rick had nailed the enduring reality (and key message of this report) that successful beef operations need to 1. acknowledge that they are 'businesses', 2. adopt a 'planning' approach, and 3. base their futures on 'effective partnering'.

My background, education, career-to-date, and passion for the business of cattle and its people, has driven my interest in this topic. I have spent most of 40 years 'chasing cows' in the home business. As the agricultural professional of our family's next generation, residing on the home farm at the time of my scholarship, I enjoy the production aspects of the operation and have an interest in investigating the possibilities for our business succession. My off-farm career has involved nearly 20 years of financial counselling, agricultural economic analysis, and business consultancy in agricultural businesses. All this has fostered my interest in better businesses management. Recent consultancy work has led me to adopt a 'whole of business' approach when working with NQ beef operations, addressing land, herd, business and people aspects of the business simultaneously. Throughout my travels I have focussed on looking for effective means of accelerating this process for producers, particularly for the next generation of NQ extensive family beef businesses.

This document is written with a hint of conversational tone. My hope is that the NQ beef producing families who need the help will read these 30-odd pages and be able to establish a clearer approach to their business management and succession issues.

# Acknowledgments

The Nuffield program by its very nature is intensive. My scholarship was an eight-month process of travelling, meeting with farmers, academics, and industry stakeholders for 16 weeks in 17 countries, criss-crossing all seven continents and then writing this report. It was challenging but the adventure and personal growth gained is second-to-none especially for a farming fanatic.

My Nuffield scholarship has been made possible by a team of generous people.

My sons Ian and Andrew, their father Bart, his parents Ian and Sharn Larard, and my mother Helen Caird; I am grateful for their assistance and patience. Thanks to my father, Jim Caird whose agricultural teaching and example over the last 40 years has made the melding of theory and practice seamless in my professional life; and my brother Robert Caird whose enthusiasm for our work and farming interests is appreciated.

To my BeefSense project colleagues - Joe Rolfe, Bernie English, Emma Black, Kirsty Soda and Lindsey Perry - our project work of recent years and my scholarship have been possible thanks to your collaboration, good counsel, and friendship.

Finally thank you to Nuffield Australia, my 2018 scholarship cohort and Westpac Agribusiness. My Nuffield opportunity was sincerely appreciated, leaving me with a sense of indebtedness to the organisation and investor. I hope I have fulfilled my end of the bargain, albeit with the intention continuing to 'do my bit' for the northern beef industry in the years to come.

# Abbreviations

ABR - Australian Beef Report (ABR)

ABS – Australian Bureau of Statistics

CFO – Chief Finance Officer

CurrentGen – Existing or exiting Generation currently operating the family cattle business

LWG – Live weight gain

LTCC – Long term carrying capacity

NextGen – Next Generation coming into family businesses

NFF – National Farmers Federation

NQ – North Queensland

RFCSNQ – Rural Financial Counselling Service, North Queensland

SR – Stocking rate

# Objectives

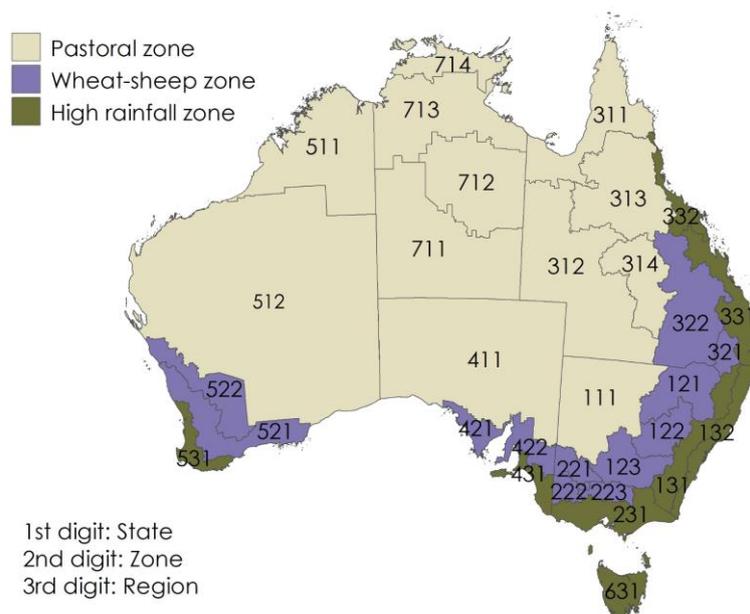
- Defining and identifying opportunities for better business management in extensive family beef operations in NQ.
  - Is a 'whole of business' approach part of the answer?
  - How do we move the thinking from being producers to business managers and even entrepreneurs?
- Relate the effect of these opportunities to better succession planning outcomes.
  - How do we reach a balance between the knowledge and skill that comes with experience vs the enthusiasm of youth?
  - How do we encourage the older generation to embrace change and give the next generation 'a go'?
  - How do we upskill the NextGen appropriately, keep them enthused but not foster unreasonable expectations?
  - What issues or aspects, that if realised and addressed early, can then lead to a better succession result, even if this is no succession?
- Approaching the pervasive culture of 'succession at any cost'. Understanding viability – both financial and personal.
  - Can the current business model succeed in the long term or is it just an exit plan for the older generation and a start-up strategy for the next generation?
  - Learnings from other places/industries where family businesses successfully transition through succession.
  - Is it as simple as 'sorting it out early', or do these businesses foster a culture of being business-minded, maybe even entrepreneurial, when approaching succession?
- Find models for better strategic planning and management applicable for NQ beef businesses.
  - How do we better apply a whole of business approach as part of the answer?
  - Does this extend to fostering better learning and support mechanisms for business partners including models such as discussion groups.

# Chapter 1: Introduction – NQ Beef Industry

Beef cattle grazing is the dominant land use of NQ with some 55 million hectares grazed by some 2.8 million cattle (Rolfe, et.al 2016). In NQ there are approximately 600 full-time beef businesses and 800 small holders, turning off an estimated 770 000 cattle each year to a range of markets including domestic consumption, live export, the store market, Jap Ox/Bullock trade, US grinding beef trade, and southern fattening properties (Rolfe et.al, 2016). The production system is based almost entirely on perennial grass species with some introduced legumes. NQ’s monsoonal climate, typified by highly variable, summer-dominant rainfall patterns, leads to significant fluctuations in the production and quality of pastures (Winter 1978, Ash and McIvor 1995) and thus the reliability of the feed base.

NQ beef production includes two systems - the intensive, coastal and Tablelands-based, high-rainfall production system where cattle herds are often small, run-on properties of a few hundred hectares (area 332 in Figure 1) grazing introduced grass and legume pastures. These businesses tend to be lifestyle producers, semi-retired or working off-farm jobs. The extensive, mostly inland, generally drier, larger scale operations tend to run thousands of cattle on tens of thousands of hectares of predominantly native grasses improved with some introduced Seca Stylo and Verano legumes (area 311 - Cape York & Southern Gulf, area 313 – Northern Gulf & remainder of the Southern Gulf, the northern section of area 312 - Cloncurry district). The arbitrary ‘boundary’ is approximately a hundred kilometres south of the Townsville – Mt Isa ‘line’, loosely based on catchment demarcations. These are the core beef producers in NQ, some large corporates but mostly family businesses who are the focus of this report.

**Australian broadacre zones and regions**



**Figure 1: Australian Broadacre Zones and Regions, ABARES**

Land condition is a critical issue for NQ extensive family beef businesses. Over-utilisation, attributed to poor management of grazing, fire and vegetation, exacerbated by adverse seasonal conditions, has caused significant damage (MacLeod, Ash and Mclvor, 2004). Whilst advances in the 1960s and 1970s (such as better adapted breeds, animal health improvements and increased nutritional supplementation) offered significant productivity gains, they came at a substantial environmental and land resource cost. Failing to appropriately match stocking rates (SR) to long-term carrying capacity (LTCC) continues to deplete the pasture resource base. Soon to be published land condition survey results estimate that in three decades the northern Gulf grazing lands will retain only 50% of original carrying capacity, if meaningful management change is not pursued (pers. comm. Rolfe, 2018).

The harsh nature of this production system results in production norms significantly below southern cattle industry standards. Key productivity drivers of reproductive rate, mortality rate and annual live weight gain are the foundation for understanding a NQ extensive beef business (Rolfe et al 2016). With averages of 55% weaning rate, 8% to 10% losses and 80 kgs to 100 kgs annual liveweight gain, the system is marginal with many producers surviving the last industry downturn by cutting paid labour and drawings, increasing borrowings, forgoing equipment replacement and capital improvements, and spreading overhead costs by increasing herd size at the cost of land condition (Rolfe et al 2016).

The Australian Beef Report (2017) discusses the stark financial reality of the Australian beef industry. On average, “The Best” or Top 25% of family owned specialist beef businesses make a profit. “The Rest” run at a loss (Holmes & McLean, 2017). The Top 25% manage nearly half the herd and land area. NQ does not escape this dynamic, with producers on average recording marginal operating returns of less than 1% over the 12 years (2004-16) (Holmes & McLean, 2017), only getting ahead through capital gain but at the risk of increasing their borrowings substantially during tough years (Rolfe et al, 2016).

Operating in this environment has bred a certain type of able cattle producer supported by his/her dedicated family. The culture of bi-annual ‘musters’ of the herd and the isolation induced need for self-sufficiency has bred patient, practical, hardworking people. Traditionally patriarchal, there is a growing prevalence of wives and daughters undertaking the daily operations. The challenge now lies in the uptake of technology and technical improvement. For many decades, productivity gains (such as genetics, nutritional supplements, and animal health advancements) combined with scale, took the northern beef industry ahead. Future gains need more technical proficiency, and there in-lies the problem for many NQ extensive family beef businesses. With some urgency, most need the next generation to become involved in the decision making, but with as many as 70% acknowledging they are experiencing succession issues (Rolfe et al, 2016), this is challenging.

This report is not intended as yet another dissertation on the technical succession planning process. It is not targeting the process, albeit vital, of defining the appropriate legal, tax structures and financial planning to progress the management transition of family beef

businesses and transfer their assets from one generation to the next. Nor, has the family communications field been critiqued (the relationship processes guided by a facilitation expert); again, an important part of the traditional succession process. Instead, this report focuses on the strategic aspect of the succession process. The aim is to better define what it is about the process that causes so much angst and succession 'fall out' in families and target alternate succession mechanisms or models *sooner*. Are there identifiable 'up front' issues/aspects/realisations, that if addressed early can then lead to a better succession result, even if this result is no succession? What traits do successful family businesses exhibit in relation to succession and is it as simple as 'sorting it out early'? Is the business model (current and/or proposed) truly viable, not just in a financial sense, but crucially in a people or relationship sense? Can it succeed in the long term or is it just an exit plan for the older generation and/or a start-up strategy for the next generation? Has the older generation ever partnered in business (excluding marrying!)?

The succession process is fundamental to the long-term success of family farm businesses, such that it has become a standalone specialty area within financial planning, accountancy, and legal services. The disadvantage of this is just mentioning the word "succession" around some industry professionals is a bit like saying "wedding" to a florist or reception venue; it is likely to be an expensive process. Discussing succession causes great angst for producers who have had bad succession experiences. It is for this reason that alternate succession models are required, and the process needs a longer-term approach to the point of no longer even referring to "succession" but just enveloping intergenerational transfer into the strategic planning processes of the business.

# Chapter 2: Better Business Management

## 2.1 What is better business management?

NQ extensive family beef businesses face a complex mix of biophysical, productivity, financial and family challenges (Rolfe et.al, 2016). Better business management involves adopting an approach where no one facet of the operation has precedence over another. Balancing cattle, grass and cash in the bank is a good descriptor of the process (Braithwaite, 2015), and this balance is struck by developing reserves in the system to provide a risk buffer (impact of drought, market downturn, govt regulatory changes etc).

To extend his model for long term success, it also needs to include the people management aspect of the business. The problem working with family, even in a large business, is the tendency to keep the relationships low-key and familial. Identifying roles and responsibilities has long been a means of addressing this issue (Hofstrand, 2009), but human resource management systems are often haphazardly implemented by families. Building a high functioning team is critical in any workplace, and family grazing operations are no different. Without good organisational management, individuals attempt to function in an environment of challenging relationship dynamics, navigating a stressful working and living environment, and ultimately jeopardizing relationships and their businesses.

## 2.2 Current management styles

Management ideology falls into two camps in NQ extensive family beef operations:

1. The high SR production model, and
2. The sustainable business approach.

Matching SR to LTCC in the northern beef production system has been proven to be sustainable both financially and ecologically. This is evidenced by the 20-year Wambiana grazing trial (O'Reagan and Bushell, 2011). However, this approach appears to have limited acceptance as 'good business' by many producers, particularly those adopting a land trading and accumulation model; growing their wealth by maximising their exposure to rising property prices. The fact is that, in the short to medium term, in a cash sense it pays to run heavier SR at the expense of the land resource. This is essentially 'flogging' country (pers. comm. English, 2018), and by running the extra cattle to generate enough income to fund the producer into extra properties, it enables the producer to grow their business and wealth more rapidly. With no economic or regulatory penalty for their activities, these producers also subscribe to the mentality that 'he/she with the most (cattle), wins' when droughts or poor price periods break. Consequently, they stock their properties to take advantage of potential future market opportunities. This heavier SR strategy requires the producer to trade on the body condition of their breeders between wet seasons, risking lower calving rates and higher mortalities if the season goes against them. This type of producer has an appetite for risk and a willingness to pursue a business model with less equity, accepting the increase in nerve required, as well

as the management stress experienced. They tend to not only run their land and herds hard but their families as well. Succession is often a long, tough, uncertain process for these families.

Those who subscribe to a more sustainable business model, do so with buffers in their business. They match SR to LTCC. They pursue herd management practices that reduce mortalities, mostly regarding maintaining body condition on breeders by managing grass and pursuing appropriate animal health practices. 'More management' or intensifying their operation works for those who are willing to break the mould and pursue the '1% gains'. These businesses tend to be more risk averse and operate with higher equity, using bank finance having first carefully analysed the likely impact on the bottom line. They often operate with guidance from professionals external to the business (accountant, consultant, bank manager, DAF extension officer or rural financial counsellor), placing a significance on these relationships and the access these professionals give to current information and industry networks. Their succession strategies tend to be better thought out, they start early and progress methodically, and are, at the very least, financially viable (if not always personally, see later succession section). The buffers in their business model – grass, herd, financial and personal – provide reserves for the tough times.

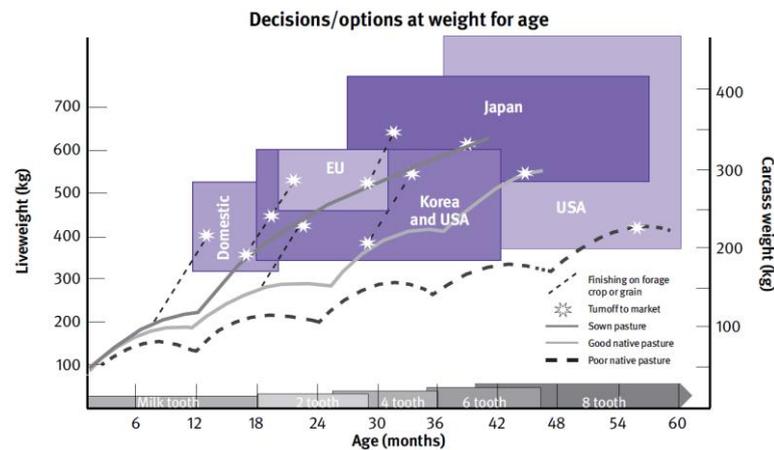
## **2.3 Identify opportunities for better business management**

It is possible to identify better business management opportunities through the prism of a Whole of Business approach. Breaking the business into the four key management areas of herd, land, finances and people, helps to focus the attention of management on the strategic gaps in the business model.

### **2.3.1 Herd**

Much of NQ is a tough production environment for beef cattle. The seasonal nature of the system results in a spike in feed quality (adequate protein) and corresponding weight gain in the wet season (summer), tapering to barely maintenance mid-year and even weight loss towards the end of the dry season (spring) (see Figure 2). The inherently phosphorus deficient soils are so limiting that un-supplemented cattle are known to 'bone chew' to fill the deficiency. Body condition and fertility are dramatically affected.

Since cattle were first brought north, producers have attempted to address the dry season feed gap (the 'Vs' on the native pasture curves, Figure 2). With most extensive northern grazing systems lacking adequate nitrogen in the dry season and phosphorus in the wet season, successful cattle producers look for low-cost supplementation measures to address these deficiencies. Various strategies have been trialled, with mixed success. Improving native pastures with legumes, feeding hay or silage and/or fortified molasses, and transporting growing cattle to other districts with higher quality pasture are all in the play book. The affordability of development has long been the challenge; even rudimentary fencing and water infrastructure to allow basic pasture and herd management is extremely challenging in a system with vast areas and inherently marginal profitability.



**Figure 2: Typical Growth Pathways to meet Major Beef Slaughter Markets, FutureBeef website, taken from Bowen, Buck and Gowen (2010)**

<https://futurebeef.com.au/knowledge-centre/am-i-selling-or-marketing-cattle> taken from Bowen, Buck and Gowen (2010).

The harsh nature of the system results in production norms significantly below southern industry standards. The key productivity drivers of reproductive rate, mortality rate and annual live weight gains are the foundation for understanding a NQ beef business (Rolfe, et.al, 2016). It is intrinsically difficult to collect accurate data associated with these key drivers. Reproductive rates are measured by calculating weaning rates when bi-annual musters occur in what are generally continuously-mated herds (bulls run with females year-round). Mortality rates are not measured by recording deaths in the herd, as dead animals are rarely seen (given average SR of one animal per 10 to 20 hectares). Instead, female sales as a percentage of total sales, indicate mortality rates by identifying the disproportionate number of females required to 'top up' the herd as replacements. Additionally, annual live weight gain and the seasonal variability of cattle growth is hard to measure if crush scales are not installed and used as part of a practical, time efficient and meaningful herd recording system.

Beef production on extensive NQ beef properties comes down to understanding the balance between focusing on nutrition versus genetics, to identify where the most significant production and marketing gains can be made. Matching SR to the LTCC of the country is the key driver of northern beef business productivity. In a practical sense, having genetics suited to the conditions is important. Adequate Bos Indicus content to contend with the challenges of the production system (heat, parasites, poor pasture quality, rough country) is vital. That said, what is produced needs to be marketable, so 'breeders for the country, bulls for the market' has long been a catch cry of extension services (pers. comm. Rolfe, 2018). However, it is important to highlight the folly in industry culture of focusing on genetics rather than nutrition as the key driver. It has come about in part because of the pervasive 'cattlemen' culture, and in part, the influence of savvy stud marketing. In a 'softer' southern production system, a 50:50 split between the effects of nutrition and genetics is espoused. The harder the conditions of the production systems, the more influence nutrition/feeding has over genetics/breeding (assuming some genotype suitability to environmental conditions), more

like a 70:30 ratio. Conservative grass managers such as Greg Brown, former Cattle Council president (pers. comm., 2018) would say, given the northern genetics are now “quite good”, the production extremes, particularly those influencing nutrition, are the limiting factor with the balance being at least an “80:20 ratio”. Whilst beef business managers concentrate on being cattlemen/women rather than graziers or ‘grass farmers/managers’ they will continue to pay too much for genetics (strangely, often unproven genetics) and will resist addressing the real limitation of the production system – keeping adequate nutrition in front of cattle all year round.

### **2.3.2 Land**

From published research findings and practical experience, having at least 50% cover at the break of the season is a must (Rolfe and English, 2011). “Eat half, leave half” is the rule of thumb. This ground cover slows runoff, reduces soil loss, and increases rain infiltration resulting in more pasture growth. Quoting Cogle et.al, Rolfe and English (2011) noted that annual runoff from bare ground is seven times greater than runoff from areas with good ground cover, whilst annual soil loss from bare ground is 34 times greater than soil loss from areas with good cover. The quality of runoff water in reef catchments has morphed from an environmental issue to one of social licence, the concern being, that the industry risks condemnation not just from environmental groups, scientists and regulators, but now from the general public as well.

In a beef business, having grass ‘= options’. Given the pasture base is the fundamental resource for operating an extensive beef business, producers need to better understand the limitations of their grass reserves, its nutritional capacity, and its stocking potential. A producer neither needs to be a grass scientist nor an animal nutritionist to run a cattle operation well, although some education in these areas is fundamental to understanding the key building block of the business – the pasture resource. If producers do not match SR to LTCC and are guilty of running down their pasture stand, it could be argued they are depleting a natural resource; one that with predominantly leasehold tenure, is essentially a publicly owned asset.

### **2.3.3 Finances**

The Australian Beef Report (ABR) identifies the key characteristics of “The Best” or Top 25% of family-owned specialist beef businesses. It includes their capacity to generate a healthy profit, having considered wages for owners, debt recovery, fund capital improvements and expansions, fund retirement and succession, and buffers for future downturns (Holmes & McLean, 2017). “The Rest” cannot generate enough funds on average to afford these basic aspects of a profitable business. In simple terms, they are not viable. Thus, better financial management is an issue of some urgency in the beef industry. As highlighted by Angus Hobson, the ABR independent reviewer, “the financial foundations of the beef industry are far from solid – this has ramifications for the longevity and sustainability of beef production in Australia” (Holmes & McLean, 2017).

Holmes & McLean (2017) suggest that there are two key issues affecting the profitability of beef businesses - operating scale and efficiency. Poor profitability and debt pressures exacerbate the overstocking issues as producers feel locked into a strategy of trying to maximise breeder numbers (Rolfe et.al 2016). Chasing scale without achieving better profitability is typical of the system and is further exacerbated when families try to achieve succession via 'a property for each child' model. Many well integrated, viable breeding/finishing cattle businesses end up dissolving under this approach to achieve 'fair' succession. The well-meaning intention of giving the next generation their 'start', results in one viable business becoming multiple marginal operations often carrying significant debt. Even if things go well and the operation succeeds to rebuild into a viable business, history often repeats 25 years later, when once again the family attempts succession for the following generation. In short, the return on investment in the northern beef industry is too low to get far enough ahead in the intervening years between family succession transitions.

Financially successful businesses, regardless of their land management approach, all have good financial control. Although not necessarily recognised as such, there is a Chief Finance Officer (CFO). Most producers are involved in submitting their Business Activity Statements (BAS), as well as a growing myriad of compliance and regulatory tasks. However, this operational aspect of business management needs to be extended to include more strategic thinking and planning activities.

There is an opportunity for producers interested in improving their financial literacy to avail themselves of numerous analysis tools. Depending on their skill levels, producers may outsource their analysis to consultants. Alternately, producers may wish to develop their own skills. In more recent times, government services such as DAF and RFCSNQ have increased staff available to assist. There are now rural financial counsellors, beef extension officers and/or agricultural economists in most major centres in NQ. There are several excel-based tools available including Breedcow Dynama and the BeefSense spreadsheets (Appendix 1) for analysis and visual interpretative tools.

Another key element of better business management is not just selling cattle but actively marketing them. When the successful NQ extensive family operations analyse their cashflow, they have income most months of the year. They are not just mustering biannually and sending the marketable cattle to the live export boat or saleyards. Successful producers actively managing the process of identifying markets/customers and their needs, knowing what they can produce profitably, and using feedback to refine their production and services. They produce cattle that meet market specifications, having been provided a rising plane of nutrition from the time they are weaned, and try to turn them off heavier on a weight for age basis. They market at a time of year when cattle are in demand and so achieve a premium price (either side of the wet season) (FutureBeef, 2018). Observing beef operations across NQ and in over a dozen countries in 2018, it is apparent that the successful operators are as focussed on the task of marketing their cattle as they are with the job of producing them.

### **2.3.4 People**

Encouraging producers to focus on the people in their businesses includes aspects of personal and professional development, human resource management and succession planning. There are always improvements the individual can make in terms of self-development, better understanding the personalities involved in the business and determining how to interact constructively and achieve results. Working on issues associated with communication style and skills, aspects associated with human resource management for both the family and external labour are all critical to maintaining job satisfaction and operational safety long term.

Including the next generation as operational managers and then encouraging them to think strategically sooner rather than later, is a feature of successful businesses the world over. Projectising aspects of the business for autonomous management, identifying roles and delegating responsibilities to the next generation keeps them engaged and motivated particularly when the succession process is likely to be long and arduous.

### **From producers to business managers to entrepreneurs?**

As the challenges facing NQ extensive family beef businesses grow, so does the need for an appropriate level of technical and economic training. Agriculturalists the world over, regardless of the size of the enterprise, are challenged by the need for knowledge. The competences of producers can be divided into three categories craftsmanship, management and entrepreneurship (Zondag, 2015). Zondag (2015) identified craftsmanship as relating to knowledge and experience on the technical level (regarding the product and means of production), management as arranging and organising the production process, and entrepreneurship as crafting and making the strategic choices.

Typically, there is a focus on knowledge development related to craftsmanship and management, while much less attention is paid to entrepreneurship. Morris, Henley and Dowell, (2017) observed entrepreneurship, in the form of on-farm diversification activity, deploying resources either “as a substitution for current farm enterprise or to increase the range of farm business activity.” Zondag (2015) highlighted the importance of fostering and developing entrepreneurship to enable socially-responsible farming. Other strategic choices, such as those related to the succession of the farm, diversification of the business and investment decisions that have an impact on the overall competitiveness of the farm, all require an entrepreneurial mindset (Zondag, 2015).

Understanding these three categories of producer competencies is important to our next generation in NQ extensive family beef businesses. It is no longer enough just to be good at handling cattle, repairing equipment, or even knowing what lick supplement to feed. Appropriate resource management, savvy cattle marketing decisions, and managing the businesses finances are all management skills currently required to succeed in these multi-million-dollar beef businesses. The ability to think entrepreneurially will become the next higher-order level of thinking required to succeed.

Planning, analysing, making investment decisions, looking for new enterprise opportunities and forming business partnerships are all part of doing business and need a consistent and methodical approach if the business is going to succeed. NQ beef producers need to move from thinking they are 'just' cattleman, to learning the market-centric approaches required of significant commodity suppliers. The final step is to learn to approach their business model (and industry) as suppliers of a valuable and sustainably produced ingredient. At that point, they become entrepreneurial. As Michael Horsch, the German industrialist espoused to the 2018 Africa Global Focus Program group said, "*farming is passion combined with entrepreneurial spirit to keep it going*". Studies that focus on entrepreneurialism and options such as enterprise diversification typically view the producer as "actors who respond as the objects of innovation diffusion" (Morris, Henley and Dowell, 2017). This highlights the important role of farmer networking and farm extension services, as well as the broader development of infrastructure to support information and communication in rural communities (Morris, Henley and Dowell, 2017).

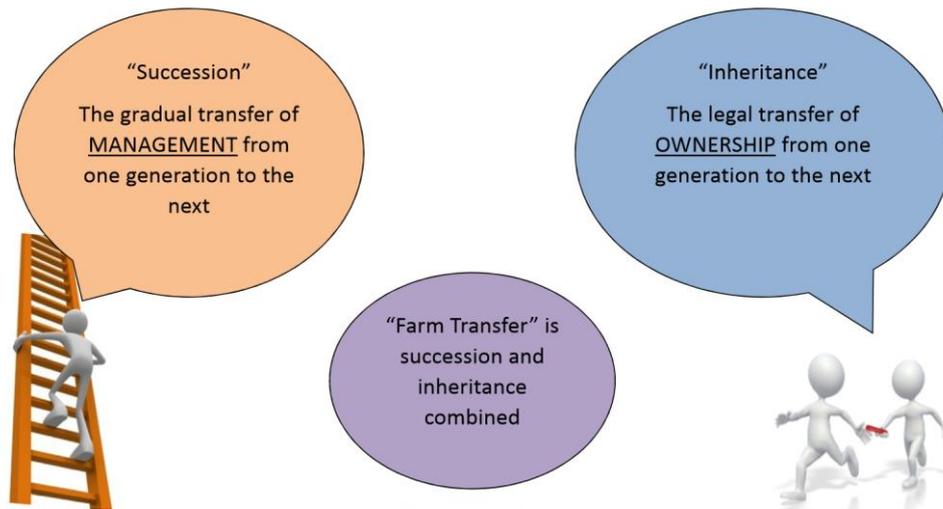
# Chapter 3: Succession Planning

## 3.1 Traditional succession planning

The family farm continues to be a mainstay of agriculture worldwide. As Lobley, Baker and Whitehead (2016) noted, *“the long-predicted demise of the family farm has proved to be somewhat exaggerated”*. One issue resonates consistently and globally. Regardless of a nation’s degree of economic development, political (in)stability or educational standards, family businesses, particularly farming, remain an important business model the world over (Lobley, Baker and Whitehead, 2016 p 33; Hicks 2012 p99). Family farming is distinguished by the peculiarity of being an economically significant activity with strong emotional attachment. This attachment relates both to the act of farming itself and the farm being the hub of family life (Hicks et. al, 2012). The key to understanding the depth of attachment is the multi-generational element of the business. The world over, farming is typified by the folklore of earlier generations ‘building something from nothing’, with hard times and poor returns having been endured to build something for current generations. Consequently, occupational succession is a key characteristic of international farming life (Hicks et. al, 2012; Gray, 2000).

In Australia, some 94% of farms are family owned and operated with heritage dating back three generations or more (Lobley, Baker and Whitehead, 2016). Characterised by tenacity and persistence, family farmers, including graziers, have seen their range of daily activities and challenges expand. From the usual production, marketing and business compliance related issues, challenges include increasingly confronting externalities from additional red and green tape costs, rising land prices, increasing water and land use demands, increasing seasonal variability and climate change risk, increasing price volatility and market access issues, social license issues, the list goes on. Despite the escalating challenges, a strong ‘rural ideology’ persists that prioritises passing on the business to a familial successor (Lobley, Baker and Whitehead, 2016). In essence a succession culture.

Succession, for family owned and operated agricultural businesses, has many and varied definitions. There is some international academic debate over the definition of succession mostly related to identifying various aspects of the process. Whether calling it ‘succession’ or ‘intergenerational transfer’ or ‘transition’, it is essentially *“the process stretching over a period of time, of transferring managerial knowledge and control in agricultural businesses”* (Lobley, Baker and Whitehead, 2016). Conceptually, ‘inheritance’ denotes the legal transfer of ownership of business assets including land and factors of production and remains intricately linked to succession. The timing and efficiency of the process is so vital for the success of an agricultural business and is so significant for the individuals involved, that the two processes, particularly in Australian agriculture - management transition and asset transfer – are collectively considered ‘succession’.



**Figure 3: Irish model of Farm Transfer (Teagasc, 2017)**

Succession is a significant issue facing as many as 70% of the beef businesses in NQ (Rolfe, et al, 2016). The isolation and remote nature of the district means working and living together adds an extra degree of tension within these grazing operations. Many family operations in NQ survive by sourcing poorly remunerated family labour (Rolfe, et al, 2016). These potential successors forgo remuneration in the short term in the hope of eventually receiving equity in the business. Overlaying this with periods of poor business returns, due to drought and/or market downturns, and coupling it with the risk of declining equity, family operated grazing businesses experience significant pressure. It was noted by Rolfe et. al (2016), that grazing businesses who managed low rainfall years by selling down to preserve grass reserves appear to have better control and are under less stress.

Traditionally, succession in Australia has involved a process of working through facilitated family meetings both with technical experts (lawyers, accountants, financial planners) and communications experts (Hicks et.al., 2012). Elsewhere in the world, the family farm business transition process may be navigated quite differently.

Dutch and Austrian people spoke of the 'willing child' inheriting, meaning the one willing to stay and 'work for the family'. Many of the same family tensions were intimated but the opportunity to secure the asset base was adequate compensation for remaining at home.

In Ireland, succession focusses on the family retaining its land, with average property turnover of 360 years confirmed by Mike Brady, MD Brady Group, Ireland (pers. comm. 2018). The business model is secondary to this principal. The oldest son 'getting it' is the predominant succession model.

South America (Brazil, Argentina, and Chile) exhibit a more equitable approach to the division of family assets. Without the long-term ties of family history to a given property, there seemed a will to professionalise (particularly amongst larger family businesses) the ownership

with a company structure and external management. There was an eagerness however for family members to retain a shareholding and keep the link to the family business.

In these businesses, as found in Australia and highlighted by Mike Stephens of Meridian Agriculture (pers. comm. 2018), it is common for 'professional' business models to be adopted and family businesses to be held together for another generation. Generally, this allows the family to take advantage of scale and business growth opportunities. However, it is unusual for cousins to work together well, and ultimately the operation will have to be divided or sold. Many of these 'modern professional' models are simply holding off the inevitable family split a matter of a decade or two, perhaps a generation at best. The viability of this business model needs to be assessed to gauge if all parties are to make satisfactory returns on their capital and have their time adequately remunerated.

### **3.2 Why is succession so difficult/complex? – Succession realities**

The response to the word 'succession' is often startling. Most farming families the world over have a succession story to tell; some positive, many negative.

There are three or four conflicting aims of succession depending on who is consulted. Most farm businesses want to achieve the following:

- Provide for the retirement of the older generation
- Maintain a viable business for the younger farming generation
- A satisfactory outcome for the younger off-farm generation

(Lobley, Baker and Whitehead, 2016; Stephens, 2018)

Through other professionals (accountants, lawyers, consultants, bankers, rural financial councillors) Mike Stephens (2018) surveyed 6,500 farmers proving the vast majority do not have a succession plan and do not intend to develop one. He examined 100 client records and completed 16 case studies. Of the 116 only 23% will achieve the three aims listed above, under 12% did this and split the asset base evenly. These stark statistics serve as a great reality check of the difficulties associated with achieving successful succession. The first two aims are chiefly about the financial reality, the third about the emotional aspect of the succession process. Satisfying the family and completing the process with harmonious family relationships intact is a challenge and is often the focus for the family matriarch. Although nowadays generally endowed with a balanced sense of 'fair' asset division, the patriarch is often motivated by protecting the family legacy. Having worked all his life and perhaps having inherited his start from his parents, he is often concerned with protecting the asset base to see the family business continue.

The enduring issue of succession for farming and grazing businesses is the balancing act between the NextGen seeing their inheritance (equitable division of parents' asset base) versus the emotional tie of seeing the family business continue; a business unlike many others steeped in family history (blood), poorly remunerated toil (sweat), and an emotion connection

to the land (tears). Given the statistics of the previous paragraph, if off-farm children give up their inheritance so their sibling can continue the family business, it is an unknown as to whether the following generation will in turn be able to continue. In effect the wealth of the grandparents is being channelled down a branch of the family tree. Apart from grating with the Australian sense of equality and fair play, this has particularly significant ramifications for the urban dwelling, off-farm children faced with rising costs of living and housing affordability concerns. This reality causes incredible tension for families navigating the equitable versus fair aspect of succession.

A growing focus then, is to be equitable. Usually the first step when working these issues through is to make an allowance for the unremunerated labour of the farming children. Assuming this is done early in the process and often involves transferring some or all of the businesses operating assets (herd or equipment), it is then important to try and assess the viability of dividing the remaining asset base. Assuming no off-farm assets, the NextGen producer may attempt to buy out their off-farm siblings (inheriting equal shares) and is the point at which many family succession cases are set up to fail. Trying to 'get a start', with equity of 50% (or worse), is generally not viable, particularly in the extensive beef game. Average long-term returns are too poor to trade out of this financial position. Thus, to make succession viable, off farm assets must be squirrelled away early by the older generation. If the family has more than two children, these off-farm assets often need to be equitable or better than the farm asset base.

In the NQ beef industry, succession is often pursued by buying each child a property. Regardless of marital status, gender and even sometimes interest in the industry, families generally strive to be equitable. Although well intentioned, this approach often positions the NextGen with an unviable debt level. The financial fallout often eventuates when the next industry downturn strikes.

As Mike Stephens' work highlights, "succession of a viable farm business is not an option for most" (Stephens, 2018). Discussing this with Mike, and from the authors experience in the northern beef industry, it appears that perhaps as few as a third of succession cases are truly viable, with a third failing a financial viability test and the final third being unviable on a personal relationship level.

### **3.2.1 Reaching a balance between experience and enthusiasm**

As Conway et.al (2018) commented, the current generation's "*unwillingness to relinquish managerial duties and retire is a globally recognized characteristic of intergenerational family farm transfer*". There seems to be a cultural expectation that 'farmers don't retire' (Conway, et.al, 2018). Their deeply embedded attachment to their properties and passion for their industry if not channelled constructively and metered with some self-awareness, can act as a barrier to the next generations returning to the family business. In other words, succession is stifled. With an aging producer population in many western nations, the survival, continuity, and future prosperity of the agricultural sector is at stake. In Europe this issue is of such

concern that the European Commissioner for Agriculture and Rural Development, Phil Hogan, stated that a priority for future CAP reforms must focus on generational renewal (Conway, et.al, 2018; European Commission, 2017). In Ireland, a recent report on land mobility (i.e. farmer to farmer or one generation to the next) and succession, claims the lack of land mobility currently experienced there is stifling agricultural growth by preventing young 'enthusiastic' farmers gaining access to productive assets (Conway, et.al, 2018; Bogue, 2013). However, Conway et al. (2016) commented that over time, particularly the emotional facets of the older generation's decision-making process have been neglected, going on to suggest that the outcome of this neglect has been a "derailment of the (succession) process in many cases".

### **3.2.2 Define the impact of business management on succession**

Family farming businesses, regardless of industry or nationality, tend to have just a few individuals involved, and consequently the importance of human capital should not be underestimated (Lobley, Baker and Whitehead, 2016). They highlighted that the skills, talents, and tacit knowledge developed by the current operator are vital especially around the issues that relate directly to that particular property, such as production limitations and undertaking appropriate and sustainable land management practices. This is certainly the case in NQ beef businesses. Much of what is done currently relates to what has been proven to work in the past, a mix of general industry practices and property-specific or circumstance-specific knowledge given the areas are vast, the cattle many, and the labour resource limited. Cattle management, both animal husbandry and nutrition related must be efficient, time sensitive and cost effective. As these businesses have grown, so too has the imperative to develop the managerial skills and knowledge to operate them well. The need to transfer these skills and know-how is also a vital part of the sustainability story of business.

### **3.2.3 Succession models**

The transition of managerial control is difficult in most family run agricultural businesses. As Lobley, Baker and Whitehead (2016) highlighted, "Australian farmers.....rely on farm income in retirement and consequently have an interest in protecting their future security by maintaining managerial control". This fear of losing control of their finances is used as the base reason for not transitioning at what would be managerially, the optimal time for the business. The problem then escalates as the successor works on the family property but is allowed few responsibilities – the farmer's boy situation. According to Australian survey results from the early 2000s, this situation is only 5% of successors, but anecdotal evidence suggests that this circumstance is more common in the NQ beef industry, where generations are close together, and a patriarchal culture pervades. "The 'old bloke's not handing over the reins" Lobley, Baker and Whitehead (2016) is a common complaint and is probably experienced by degrees. In effect, the successor is apprenticed to the older generation indefinitely and in extreme cases, or when the next generation arrives in 20 rather than 30 years, the successor risks being skipped in the succession process altogether. In many families however, this circumstance is not as extreme, but the 'apprentice' phenomena pervades. Given the rapid changes now being experienced, be it related to technology, business acumen or social mores, this is a real issue for family businesses. The next generation are no longer

able to patiently wait their turn, as slowing the process is a significant risk to their own personal wealth and wellbeing.

It is a tough observation to make, but frequently the businesses that have succeeded in the previous generation are those who inherited early or had the resources to strike out on their own. It is then amazing to note, that many of these now older producers cannot bring themselves to give their own successors some independence early enough to let history repeat positively and make the most of youth and enthusiasm to drive their business ahead. Self-made, they subscribe to 'no one knows like I do' attitude, making it impossible for the next generation progress, locking them into an apprentice role if they choose to continue in the family business.

The key to this type of situation is recognising it for what it is, early. The succession mantra has always been targeting the older generation with a "start early" ideology. Perhaps this process should be extended so that the younger generation start early too and assess what succession can look like from their perspective. By developing their own technical skills and self-awareness, and by seeking professional external guidance, perhaps it is possible to better assess the viability of the entire situation – business and people aspects – sooner, focussing on if it is possible for the operation to run as a profitable wealth creating business based on the strong foundation of a high functioning team.

An alternate succession option is the separate enterprise model, where successors work on the farm but take on the responsibility of an independent enterprise within the farm business. The advantage of undertaking the Nuffield experience is that there is an incredible range of large and small operations, all with their own story and presenting a learning opportunity. In the Czech Republic the example of Horsch Machinery took the success of a separate enterprise to an extreme. Horsch Machinery today has an annual turnover of some \$350 million US but started 37 years ago making agricultural tillage equipment from their home farm. From the beginning they were determined that they were doing something different - not just working soil anymore. It was a turning point in the farming business model. Today the Horsch family own 11 farms across 25,000 hectares in Germany and the Czech Republic. Horsch Machinery employs 100 engineers, and the Horsch name is known by children the world over, with Farming Simulator, the computer game, having 'gone viral'.

Regardless of whether you are a Michael Horsch or a small holder in rural Kenya, successful succession comes down to giving young people a go – the generational transition. As quoted by a farmer in Argentina "*a farm isn't meant to be a jail*". All of those involved should be given the opportunity to pursue their interest, particularly if they can present the business case. As Michael Horsch (2018) discussed, young people "*need a bloody nose to start to learn. Take a chance and give it a go. If you fail, so what?*" Thus, there needs to be a family culture of entrepreneurship, assuming they have the resources to absorb the time it takes to succeed. Additionally, there is always a need for "evidence of success" to change mindsets (Michael Horsch, 2018).

In Ireland, Chile and South Africa, young farmers reinforced on the need for different enterprises in some circumstances, with comments like “*don’t compete directly with the old man*”. The idea was not to risk ‘showing him up’ by taking on the existing operation and potentially having more success; again highlighting the need to undertake self-awareness training as part of the succession process.

Lobley, Baker and Whitehead (2016) suggested others pursue a professional detour, running a non-farm business for the family or take employment elsewhere. Running their own contracting business with assistance from the family business is a very valid initial business model and builds confidence and business acumen in the next generation. In Oregon, the author spent time talking to government extension staff who noted, “*The NextGen went off and worked elsewhere but have now come back at 28 or 30. There is a lot of to-and-fro for five years or so as management control is worked out. The kids then take control and bring all their externally-gained management skills especially regarding managing compliance paperwork but also business skills.*” It was interesting because Oregon has a burgeoning hazelnut industry. These young people are a key part of that growth.

In Washington DC, Gary Matteson, Farm Credit Council (a credit union for farmers), discussed the typical model he sees for succession. It basically involves the kids coming back, leasing ground off family then having to trade labour for accessing equipment. By mid-career they rent half and own half of the business. Gary also mentioned that 85% of US farmers generate more income off-farm. 30% of American farmers are women farming some 300 million acres. 60% of young farmers are women. New farmers are customer service focused and social media is a fundamental tool to doing business. Developing management skills is considered part of the succession planning process for the Farm Credit Council organisation.

Purchasing another holding is an option where the next generation can run an independent operation. Having parents act as a guarantor but with no daily management control on the purchase block is about as ‘clean a break’ as many of the next generation can hope to achieve.

Regardless of the model chosen, the goal needs to focus on sustainable wealth creation. A basic tenet of wealth creation is to allow time for compounding. Thus, planning for succession needs to start early enough for the current generation to have time to develop an asset base including adequate superannuation/retirement savings. The next generation in turn needs to build wealth early, particularly where the generations are close in age. There are several practical ways to achieve this within the business and encouraging an entrepreneurial attitude early is important. By starting to build their own herd early and/or trading cattle on agisted or leased land either from the family or external to the business, business skills are learnt for developing and managing a cattle business. In time, potentially acquiring smaller parcels of land to support this growing business, again either from the family or external to the business. This model provides the next generation with the opportunity to build their own business prior to having their own family, developing an asset base separate from the family business.

## Chapter 4: Succession ‘at any cost’

One of the confronting issues of succession for farm businesses is coming to terms with the idea that perhaps the family should not be considering succession at all. The tough reality for many families is that this generation may well be the last on a given property or in the industry that has always defined the family’s identity. Janice Cooper, Wheat Marketing Centre, Oregon highlighted the realities of consolidation in production systems, “*One in ten families are left in the districts of the Western States producing wheat*”. This structural adjustment is mirrored in parts of the Australian farming landscape such as regions of South Australia (according to 2018 Nuffield Scholar, Grant Pontifex). Australian farmer numbers have dropped from 135,000 in 2010 (ABS, 2012) to under 90,000 in 2017 (NFF, 2018). Whilst farm consolidation has always been a feature of agriculture, it appears to have significant momentum currently.

At the heart of the succession ‘at any cost’ issue lies the motivation for succession. When considering succession, a family needs to assess this motivation prior to proceeding. In essence, they are establishing if the motivation is emotionally or financially based. If emotionally based it is still not necessarily wrong, but it must also make sense financially. If it is a financially based decision, assess if the personal relationships involved make for a good team long term. Sometimes it is possible to be too familiar. NQ beef businesses need to be operated as businesses not family communes.

The crux of the succession issue is not better communication or assessing financial options or developing a transition plan, although all those things are important. The real and enduring issue with succession is for the parties involved to thoroughly assess whether they can partner for the long term or at least until the business can be viably divided. One of the most obvious issues we have with the idea of “partnering” in succession, albeit between people who know each other well, is that producers by their very nature are fiercely independent. Few have had successful “business” partnerships in their lives and if they have, they may have been handshake deals with neighbours or peers, involving the purchase or shared use of small pieces of equipment, or joint agisting of a third party’s property etc. Without a doubt, their fierce independence stood them in good stead, fortifying them in difficult times, ensuring their resilience and giving them the determination to succeed. All of that said, fierce independence is not a particularly helpful trait when trying to partner, particularly if it comes with no self-awareness. Strong personalities with direct communication styles and little capacity to empathise, often find it very difficult to switch to working as a high-functioning team member.

Family businesses have the challenge of trying to form highly functioning teams, when the personalities have come together out of the happenstance of birth. No formal human relations or organisational processes differentiates these businesses from other similar-sized small businesses in other industries, and although the lack of formality can be freeing, it often results in nobody knowing their role, responsibilities, or having an avenue for the hard discussions. The need of the older generation to be ‘the boss’ often stifles communication; the need for

the younger generation to be heard leads to frustration and even despair if it goes unmet. Mutual respect can evaporate in these trying circumstances.

The personal struggles in family businesses related to succession are the same regardless of time, place, or industry. History repeats itself down the generations with the struggle for older people to keep doing what they enjoy and derive satisfaction from for as long as possible and for younger people to support them to do this but without trading off their own quality of life.

With this in mind, it is time to move from a 'family' based succession model to one constructed on business-based partnering. Succession plans must become business deals. They need to thoughtfully recognise and include the in-law next generation. Likely they will require separate entities to be developed and contracts drawn up between parties to provide written assurances. This involves significant upfront legal and accounting costs, which if handled correctly can be an investment in providing future business stability.

## **4.1 Succession vs business planning**

As highlighted in the Foreword, there is a real opportunity to move the family business transition approach from succession to business planning. Traditionally, NQ beef producers have resisted the opportunity to business plan. Over time, there have been numerous extension programs to encourage producers to undertake strategic planning exercises, with minimal uptake. Producers tend to resist paperwork unless it directly addresses a need for the business (eg. application for a grant or bank finance etc.). The need for succession certainty may now be enough of a catalyst to achieve this outcome, combined with those involved having the skills and understanding of business planning to recognise its value and encourage all parties to commit to the process.

Additionally, business planning can be folded into better business management processes generally. With the rapid improvement in technology comes the opportunity to generate meaningful data within agricultural businesses and then apply the analysis of this data to business systems. *"Producers need to do math"*, an Oregon hazelnut processor explained. *"Same the world over. You need to have data to measure to know what to target to improve and systems to analyse that data. You need skilled people to do the crunching and a boss who will listen to the results."* It is widely accepted that specificity and using technology to bring data to a workable platform enables control in farm businesses. The northern beef industry is no different and with technical improvements that in time will make it possible to efficiently and cost effectively identify, locate and record individual animals, systems will change, management will better tailor decision making, and productivity leaps will be made.

## **4.2 Managing expectations and partnering effectively**

Morris, Henley and Dowell (2017) discussed the issue that farmers themselves may be a significant barrier to business development, with levels of education and readiness to cooperate being as influential as lack of physical resources. They went on to discuss the impact that the ability and skills of the key decision-makers have on the economic performance of the

farming business. Morris, Henley and Dowell (2017) also discussed the need for clear succession plans to avoid static management and inject enthusiasm to pursue more productivity and achieve better profits.

Recently, at an Australian beef industry forum a stalwart of the industry explained the success of his operation to the attentive audience. At 75 he was a success. A first-generation beef producer, he had started with very little, but with the support of his wife and family had built a large operation, comprised of thousands of cattle, producing a premium product turned off a well-developed improved pasture production system. He owned multiple properties and continued to grow and develop his business with no sign of slowing down. Despite his years, he had great energy. In his presentation, he joked at one stage that he managed “*by a committee of one*”. Later a conference delegate repeated his comment, and then asked... “*How do his kids get on?*” The answer from an industry peer was swift... “*It will all be sold up, none of them are willing to come home*”. It is a peculiarity of Australian farming that many great agriculturalists, industry leaders, pioneers, mentors to many, struggle to work constructively with their own children.

The current generation need to be upfront regarding preferences and intentions. If they are not open and direct, they risk pitting children against each other. At best they are being insensitive to the needs of the next generation and lacking emotional intelligence (Figure 4).

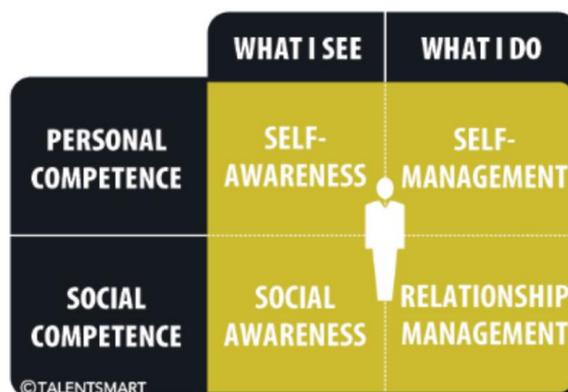


Image: Travis Bradberry

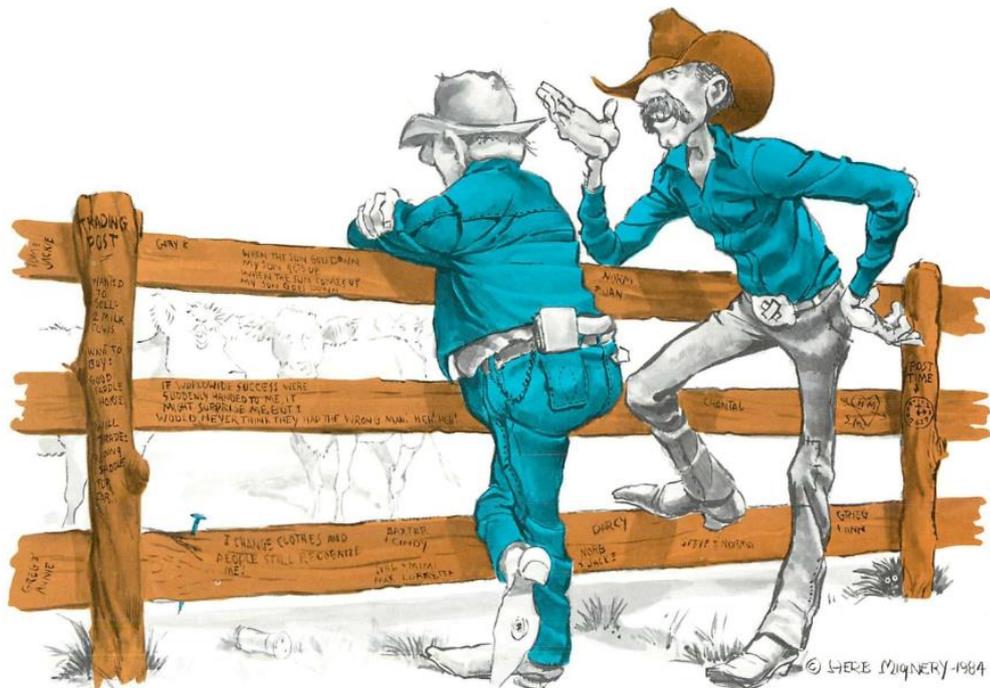
***Emotional intelligence is made up of four core skills.***

**Figure 4: Emotional Intelligence (Source: Travis Bradberry)**

People approach a situation differently if there is certainty. Interactions are charged with different emotions and it gives siblings the opportunity to leverage their combined resources. If however “who gets what” isn’t established early, it risks leaving siblings pitted against one another and worse still, sets up the sibling’s spouses with a hopeless situation of never knowing if they have any financial security. This places huge pressure on relationships. With a rapidly growing divorce rate in regional Australia, families need to plan for all possible outcomes (including exiting partners), with the aim of providing certainty.

# Chapter 5: Better business management options for northern beef businesses

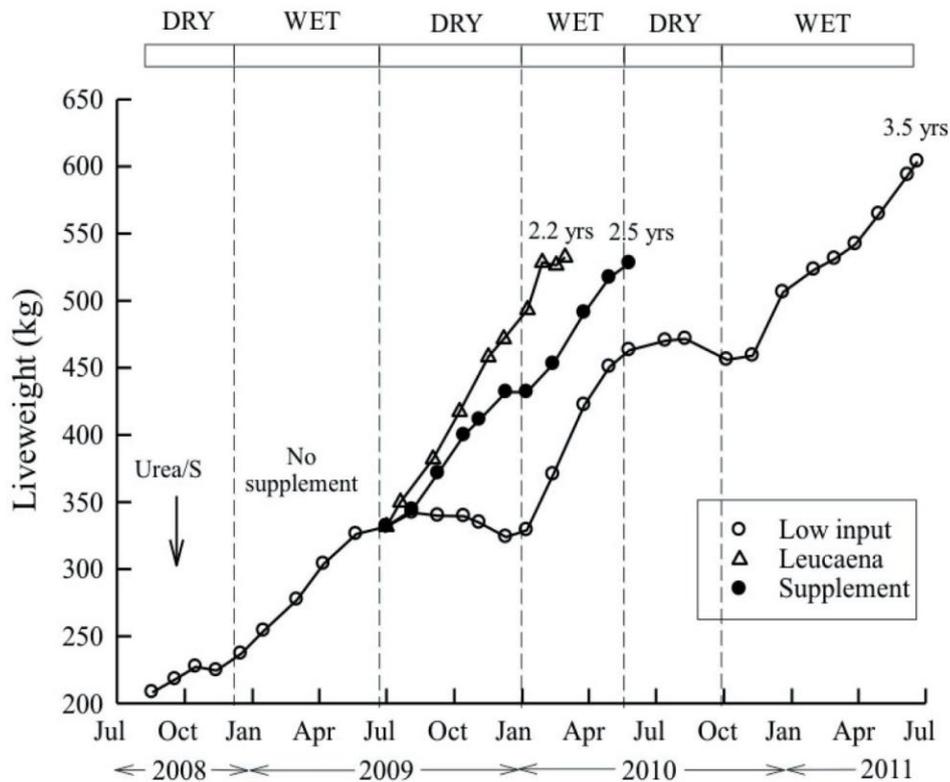
The culture of wanting to just produce cattle rather than operate a continually improving beef business has been systemic in the NQ beef industry. Taking an entrepreneurial approach to seeking out profitable opportunities has risk. There have been many productivity improvements pursued to increase reproductive performance, mortality rates and/or annual live weight gains, with mixed results. Generations of 'experts' have come from southern beef systems insisting that they have the answer for the North's poor performance. From tightening joining windows, to intensifying grazing systems, to production feeding models, there has been many a fortune injected into NQ beef operations. Many have come north, failed, and retreated. Successfully applying the technical improvements proven in other production systems, is challenged by a myriad of constraints. Soils and feed base quality are inherently poor (phosphorus and protein deficient); rain is usually received over 'the wet', just four months of the year, sometimes only two; the cycle of drought, flood and fire is the norm; spring and summer are uncompromisingly hot; skilled staff are hard to find; telecommunications systems are patchy, roads are poor, the list goes on. With this said, there are a few examples of genuinely sustainable, economically successful operations, often smaller businesses with the capacity (resources and knowledge) to adapt these improvements to northern constraints.



I can't decide if I should give'm away now, or feed'm out and then give'm away.

**Figure 5: Typical 'old-school' attitudes (Source: anon)**

There is one example of a proven Central Queensland system that has potential to significantly change the northern production system. *Leucaena* (*Leucaena leucocephala*) is a highly productive perennial legume used primarily in extensive beef operations in Central Queensland (Buck et. al, 2018). Well-managed leucaena has the potential to double weight gains and SR and with 130,000 hectares established in northern Australia, it is proven technology (Buck et. al, 2018). There are examples of successful establishment in NQ such as Meadowbank Station, Mt Garnet and Byrne Valley on the Burdekin River (Leucaena Conference, 2018).



**Figure 4** Seasonal changes in the post-weaning liveweight of steers receiving various nutritional inputs where all groups received urea/S in the first dry season post-weaning and subsequently received no further supplement (Low input) or were fed high-level molasses/urea/copra meal supplement in the second dry season (Supplement) or were relocated to a leucaena/grass-based pasture at the start of the second dry season (Leucaena). Adapted from [McLennan \(2014\)](#).

**Figure 6: Importance of Leucaena to NQ Beef Businesses (McLennan, 2014)**

What is not widely understood is the potential impact that a leucaena based finishing system can have on the bottom line of a NQ beef operation. The opportunity for leucaena is best explained by the observation that NQ is currently typified by a low annual LWG base (80 – 120 kgs/year) which in turn results in limited marketing opportunities for these cattle. However, the redeeming feature is that NQ beef operations do this with scale. Holmes & McLean (2017) observed in the Australian Beef Report, that the ultimate beef production system is to be able to breed and fatten efficiently with scale on the one property. Leucaena offers northern beef businesses this opportunity. The benefits are further extended when we consider that leucaena improves drought resilience, and has potential carbon sequestration gains (Leucaena conference, 2018), in terms of both growing the woody shrub and then efficiently fattening cattle on it as opposed to slower native pasture systems or higher input forage or feedlot systems.

## **5.1 Is a “whole of business” approach part of the answer?**

The NQ beef business environment is uniquely challenged by the tyranny of distance. Even producers' exposure to alternate ideas are constrained by travel-time limitations. Despite this, the vast property size gives advisors the opportunity to impact a significant footprint when servicing producers individually. Due to budgetary constraints, one-on-one technical service delivery began to be phased out of Queensland state government extension services in the 1990s and by the 2000s was replaced by a model of workshop facilitation. The private sector was encouraged into the advisory space; a model which worked well in cropping and intensive agricultural industries, mostly due to those industries capacity and willingness to pay. Given the beef business more marginal profitability, many livestock producers were more reticent to hire fee-for-service consultants and as such have largely operated for almost a generation without significant independent production, land management and business guidance, save that gleaned from attending industry workshops.

To provide meaningful input and achieve real change, guidance needs to be tailored for the individual circumstances. The producer obviously needs to be open to new ideas, but the guidance needs to be grounded in the complexity of the individual's circumstances. A Whole of Business approach to producer engagement achieves this with production, land management, financial and personal dynamics factored into the extension delivery process, providing a thorough approach to encouraging and supporting producers to consider change.

As NQ beef operations transition from our pioneering generation to the NextGen, it is imperative that the next wave of business managers better understand what drives their success.

## **5.2 Is better industry knowledge and advocacy part of the answer?**

As is often contended, much of the production of an industry comes from a small number of producers (Pareto principle - 80:20 rule) (Holmes and McLean, 2017). There are two sectors - one profitable in an income sense, the other not. One, building businesses and accumulating land (15-20% growth); the other securing wealth long term based on increasing land values (6-8% capital growth) and 'enjoying' a rural lifestyle and identity. Without being judgemental of the value to industry of either of these groups, they both need to understand their responsibilities from an environmental and social-licence perspective. Better communications from industry bodies and government extension agencies is needed to extend this measure. Acting now, the agriculture sector has some chance to get ahead of the alternate social message and maintain responsibility for its own operating environment and policy settings. The risk of not better telling our story is great. It is important to establish industry identities as part of the small to medium business sector committed to developing sustainable businesses based on a renewable resource base. It is important to then have informed, articulate producers conveying this message to the community.

### **5.3 Alternate extension models for overcoming business management shortfalls.**

Producer discussion groups are a less obvious opportunity to foster better business management and succession outcomes for NQ extensive family beef businesses. In Argentina and Ireland producer groups target these topics as well as production issues. The group environment may help to foster peer-to-peer learning and support, provide knowledge transfer, accelerate adoption of new technology, and develop networks, mentoring relationships and leadership opportunities. Producer discussion groups offer an opportunity to challenge cultural norms, overcoming the challenges of the remoteness and enhancing the benefits of the independent mindset inherent to many NQ beef producers.

# Conclusion

Better business management and succession planning for NQ extensive family beef businesses is an issue generating concern amongst funding bodies, banks, industry representatives, and producers alike.

As producers age, they tend not to have the skills to continue to effectively manage their resources, nor the ability to take on new technologies, or develop “an allergy to change”, as one NQ producer surmised.

With an estimated 70% of family beef businesses in the extensive areas of NQ undergoing some part of the succession process, it is a considerable drain on resources, and requires a long term, systematic approach.

There is significant international literature and examples to show that younger producers are more productive and achieve higher profitability, investment, and engagement in agri-environmental schemes.

The traditional approach to the next generation returning home and ‘partnering’ with the current generation needs careful consideration as a growing list of social issues challenges the viability of such models. Succession ‘at any cost’ is not logical.

Many established producers do not seek business advice and due to limited social networking, may not seize opportunities when they arise, restricting entrepreneurial activity and challenging the long-term viability of the operation. Hence it is logical that peer-to-peer learning and discussion groups need to be encouraged as an extension method for NQ beef businesses.

It is widely agreed that succession needs folding into more general business planning, to ensure the issue is never far from being part of a beef producer’s strategic thinking.

# Recommendations

- **Continuous improvement**
  - Seek out off-farm influences to find opportunities to improve. When in the day-to-day mindset of working a beef property, it may not be as obvious to the operator where opportunities lie.
  - Engaging independent advisors to broaden horizons is key to continual improvement and vital to successful succession outcomes.
  - Work on operating and managerial skills to improve and stay ahead of the cost curve. Training courses are available – GLM, Nutrition and Business Edge, Low Stress Stock Handling, accounting package training, RCS Grazing for Profit, Bush Agribusiness benchmarking training, and personal development training through organisations such as The Right Mind.
  - Get involved in a producer group, travel – do a Nuffield Scholarship!
- **Gauge succession financial viability.**
  - Engaging a succession planner to work through the issues is wise but be aware that their charter is to “make it happen”. Beforehand, contact a local rural financial counsellor to discuss pre-succession processes and options. Their services are professional, confidential and free.
- **Gauge succession personal viability early.**
  - When the NextGen are in their mid-20s adopt the ‘start early’ approach to succession and gauge the viability of the personal relationships in the business.
  - Ask “Can I really work 24/7 with Dad/Mum/Sister/Brother?” “Are we compatible personality types?” “Can I see myself still here in 20 years’ time?” If the answer is “No” to any of these questions, it is not the end of the world it’s just time to consider a different succession model.
- **Nutrition v genetics focus to industry productivity gains.**
  - Relentless and needless over-expenditure on beef genetics is a concern. There is a disproportionate focus and belief that an operation can buy its way out of productivity issues using genetics, rather than better planning and management, particularly in relation to nutrition.
  - Good herd bulls with EBVs are all that is required, with a GPS ear tag, an annual backline for parasites and a bit of lick when not with the herd (three months to tighten the calving window and reduce losses). Pasture improvement (e.g. Leucaena) to achieve productivity gain is must.
- **Incentivise the family transition process.**
  - Involve the NextGen sooner in decision-making processes. Depending on the age and experience of the NextGen, a family ‘board’ is an effective model

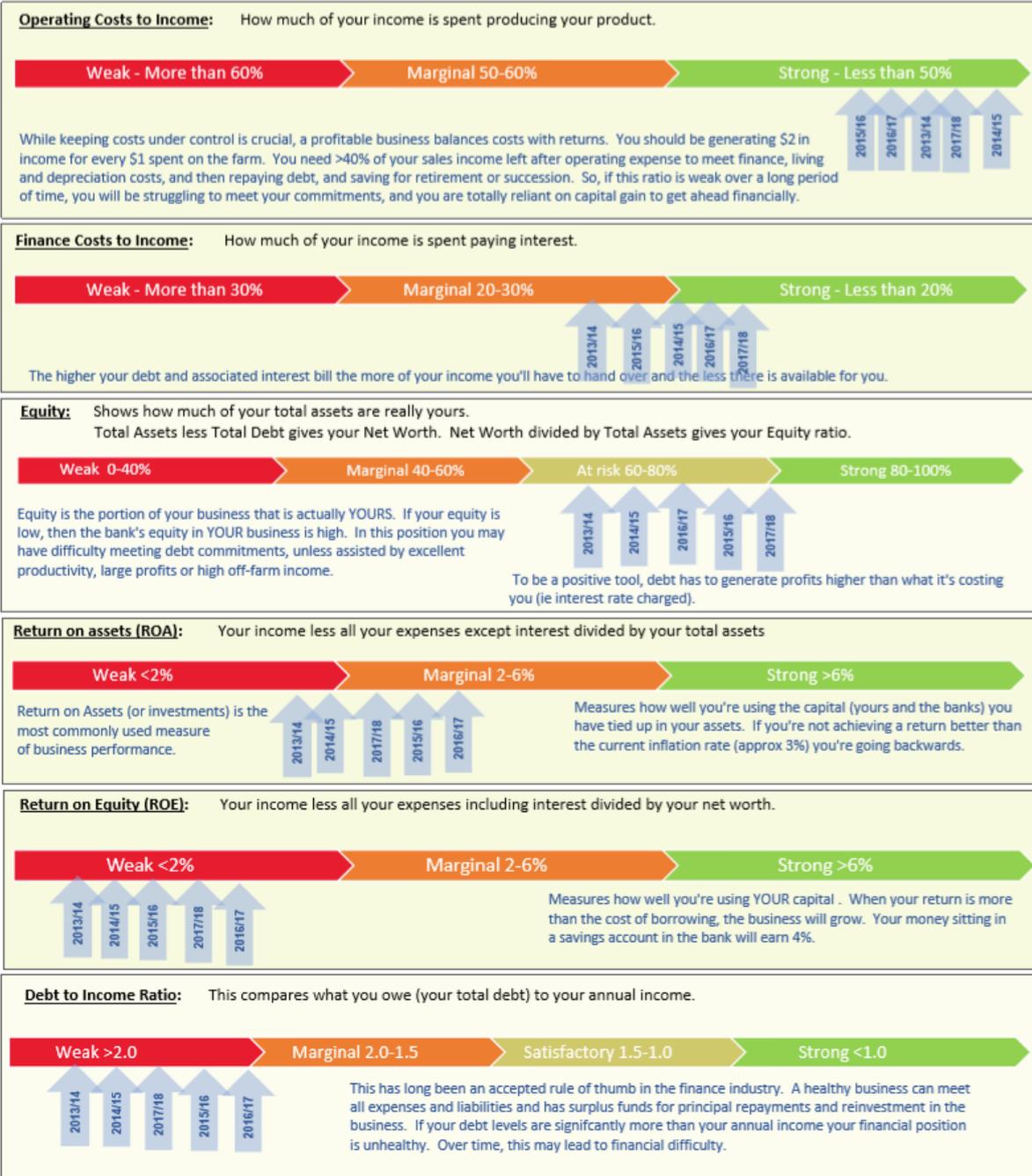
whereby younger people can start to manage with oversight from other senior/experienced family members.

- Government policy incentives need to be devised to encourage this.
- **Incentivise agricultural education for producers.**
  - To achieve practice and cultural change, education is key.
  - Government should incentivise agricultural qualifications via reduced fees/HECS subsidy/scholarships and making government assistance (grants, loans etc) dependent on holding acquiring QRIDA incentives for producers who hold them.
- **Continued government support of R&D and adoption in the northern beef industry.**
  - *Note: the author has worked for Queensland DPI and DAF.*
  - As noted in William Harrington's, 2016 Nuffield Scholarship report, well-functioning extension services in the NQ beef industry is required to disseminate new information in a timely manner.
  - For extension to succeed, the message must be relatable to the ordinary producer and delivered in an empathetic manner. Added to this, avenues for improvement need to be based on scientific and economically proven fact rather than marketing. Only independent sources of information can do this without fear or favour.
- **QRIDA Succession Grant.**
  - \$2,500 per year a producer, paid \$1 for \$1. \$1 million investment from Queensland State Government has helped 2,000 producers progress their succession process, 70% coming away with a written plan.

# Appendix 1: Financial Analysis Tool Example

## BUSINESS RATIOS & INDICATORS

Designed by Larard and Soda, BeefSense Project, 2013



# Appendix 2 – QCL Editorials

## View From the Paddock

Alison Larard

11 Apr 2018, 12:15 p.m.

News



Far North Queensland Limousin breeder and 2018 Nuffield Scholar, Alison Larard.

**f** Hello from Ukraine, where I am travelling as part of my 2018 Nuffield scholarship program. I'm Jess Fealy's replacement as an FNQ voice for the column.

**t** An ag economist by trade, I have nearly 20 years of experience in farm financial and business management and sit on the board of the Rural Financial Counselling Service NQ.

**o** The home business, Evelyn Limousins, on the Atherton Tablelands is where I put theory into practice and debate the odds with my father and brother.

**Aa** I have been privileged in recent years to work with the committed Department of Agriculture and Fisheries' Northern Beef team on a series of projects funded through the Northern Gulf Resource Management Group, working with about 70 families.

Including SavannaPlan, BeefSense and BeefSense NextGen, these projects have been developed to address land and business management issues in the northern beef industry, and we will be presenting on these topics at Beef 2018.

This year I am fortunate to be undertaking a Nuffield scholarship with Westpac Agribusiness as my investor, and am currently travelling between Europe, the USA and Africa.

My Nuffield topic looks at 'better business management and succession planning in the northern beef industry', issues that resonate in many family businesses, ours included.

It is my intention to investigate through the lens of a whole of business approach, focusing on better land, herd, financial and people management within beef businesses.

Succession is an ever-present issue in many northern beef businesses, and we must be careful that we don't pursue "succession at all costs".



Aussies born before 1962 with private health cover need to know this

Next time you hear from me, I'll be home, and we will take a harder look at land resource management in the north. In the meantime, I have 3 tips:

If you are invested in the beef industry or considering it, get yourself a copy of Holmes and McLean's Australian Beef Report.

- Get on FB and have a look at Grassland Guardians. Josie Camm is inspiring some great social media conversations.
- If you are a young producer and aspiring for more, put your hand up for a Nuffield Scholarship. Applications are now open.

– Alison Larard, 2018 Nuffield Scholar

## View From the Paddock: Managing land condition

Alison Larard

13 Jun 2018, 3:55 p.m.

News



Alison Larard, Evelyn Limousins, Westpac 2018 Nuffield Scholar.

**f** Six weeks since returning from my Nuffield Global Focus program and I'm still being asked, "what did you learn?"

**t** Still somewhat overwhelmed by the experience, I have taken to responding with either "It's all happening in Africa" or "NEVER drink Ukrainian vodka", depending on the audience.

As the weeks have passed, one observation keeps reverberating, and by sheer chance, it also relates to Prime Minister Turnbull's recent drought tour of western Queensland.

As I travelled, it struck me that our northern Queensland rangelands have the potential to be some of the most truly 'sustainable' agricultural systems in the world.

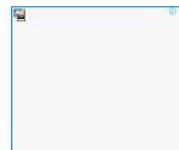
In recent weeks there has been a couple of tongue-in-cheek FB posts suggesting our naturally produced, grass-fed beef is the real 'vegan' beef.

Our rangelands beef production system – cattle suited to the conditions, wandering natural landscapes, picking their fill of mostly native pasture before spending the rest of their day standing under a tree – has few comparably sustainable agricultural production systems anywhere in the world.

There is however, one proviso. We can only claim sustainability if we keep grass in front of the herd all year round. Obviously, drought is a constant challenge, but in the north, we are fortunate to have reasonably reliable seasons thanks to monsoonal influences.

Despite nearly always having some sort of a wet season, it is not uncommon for producers to run short on grass towards the end of the year, and trade on the body condition of the herd to get through.

When this occurs, stocking rates are not being matched to long term carrying capacity, production gets pushed too hard, losses occur, country gets flogged, financial risk increases and people get stressed.



The most recent BeefSense client appraisal, shows a real willingness amongst Gulf producers to better manage land condition.

Many leading younger producers describe themselves as being "guardians" or "stewards" of the land.

In multigenerational family operations, the succession process provides an opportunity to plan for more seasonal variability, and as properties transition from one generation to the next, change core operating principles, including stocking rates, without offending anyone's sensibilities.

As one of the ranches we visited in Kenya on our Nuffield trip said, "the most important lesson I ever learned...it's our biggest responsibility; forget trying to make money..." causing momentary heart failure for my inner ag economist, before following with, "you look after the land and the land will look after you". Nutshell moment...

– Alison Larard, Westpac's 2018 Nuffield Scholar

## View From the Paddock: Irish lessons for succession planning

Alison Lazard  
31 Aug 2018, 1:45 p.m.



Alison Lazard, 2018 Westpac Nuffield Scholar



With eight weeks of independent travel required for my Nuffield scholarship between July and November, I opted to spend most of three weeks in Ireland.

What an absolute delight! A born and bred Warwick girl with the obligatory Aussie-Irish grandmother, this trip has long been on my bucket list, and I shall be forever indebted to Nuffield Australia and my sponsor Westpac Agribusiness for making it happen.

Looking for ideas targeting my study topic of 'better business management and succession planning as it relates to our northern beef industry', I wasn't disappointed.

Interesting and informed farmers, extension staff, agribusiness consultants, finance specialist and academics all refreshingly positive and calm but concerned about the implications of Brexit.

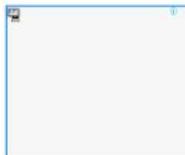
The Nuffield 'machine' has an incredible way of helping a scholar find the next appointment, dinner, bed, or industry expert to cross-examine, and the faultlessly generous, cheerful and hospitable Irish made this process seamless.

I was spoilt to see lots of Limousin herds and it probably helped visiting in the driest summer in 40 years to make travelling conditions very comfortable.

With a fantastic motorway system at my disposal, I visited all corners of the Emerald Isle and was genuinely impressed with what the Irish achieve through smarts and effort.

I found a spirit of action, of youth and enthusiasm, of advancement through scientifically reasoned production, where environmental requirements are met with some carrot to induce compliance, but mainly where good marketing is kicking goals.

When you scratch at the underbelly of Irish agriculture you find a situation enhanced with free education, well-targeted government supports (particularly R,D&E) and appropriate industry structures.



There is a discussion group culture which helps foster sharing of information and ideas, peer support and friendly competition particularly amongst young producers.

Teagasc – the Agriculture and Food Development Authority – has a very visible presence and integrates

research, advisory and training services well.

The Irish aren't afraid to try different structures to achieve change, as evidenced by their Land Mobility Service.

The program's intention is to foster collaborative arrangements, mostly long-term leases, between landholders and people wanting to grow their business.

With 400 agreements in motion, it will be interesting to watch this service progress.

Having travelled to 13 countries this year, I've encountered a theme of encouraging intergenerational transfer as a means of addressing the rapid pace of change and staying competitive.

Are we Aussies on board?

– Alison Lazard, Evelyn Limousins, Westpac 2018 Nuffield Scholar

## View From the Paddock: "Succession at all costs" not the way to go

Alison Lazard  
09 Oct 2018, 4:30 p.m.



Alison Lazard, Evelyn Limousins, Westpac 2018 Nuffield Scholar



This is my final column as I wind up my Nuffield scholarship travels, posting this from Brazil.

It has taken me overseas for four months this year, providing an international perspective on my topic of "better business management and succession planning in north Queensland beef businesses".

I have been fortunate to visit successful cattle businesses the world over.

Many have strikingly similar business models: small positive returns (~4%) being used to meet financier commitments while an asset base is being grown and/or developed.

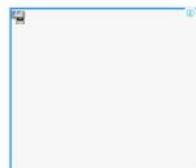
Operationally, these businesses were all pushing a high quality or value-add angle to improve returns.

Costs were closely managed with a chief financial officer in place: decisions were based on proven science and sustainability outcomes; the family's wages and benefits were treated as an operating cost, not a luxury; having a high functioning team was paramount; wherever possible contractors were used to negate over-capitalising on equipment or fixtures; they weren't over leveraged (~75% equity), and they mitigated risk.

Clear, time-framed sale/succession plans exist in these businesses.

Assessing these, it strikes me that the issue of succession for family farming businesses comes down to "viability" on two levels – financial and personal.

To me, the financial viability issue is clear cut. If you are struggling to assess your situation, engage your accountant, consultant or rural financial counsellor to assist.



Be aware that many succession planners may help in this regard but if you are paying them to sort out your succession, they will do just that.

Ensure you develop a truly financially viable business plan not just a succession plan or "succession at all costs".

The viability of the personal situation is the tricky issue.

Most of us considering succession are, admit it or not, heavily emotionally invested in the family business.

My advice...start early, but progress slowly and methodically through the issues.

Look for a succession model that suits your family dynamic – can you really partner for the long term or are you better off with degrees of independence and responsibility?

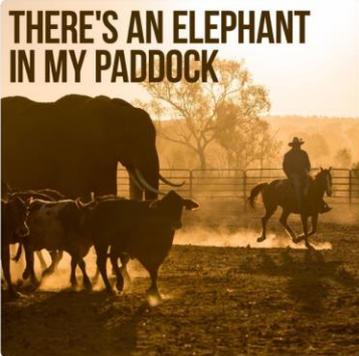
Unless there is real mutual respect and a spirit of goodwill between the generations forget the traditional succession/partnering model.

Next week I take up a beef extension role with DAF, based in Mareeba. I have enjoyed my time as a QCL columnist.

– Alison Lazard, Evelyn Limousins, Westpac 2018 Nuffield Scholar

# Appendix 3 – Elephant in my Paddock

Apple Podcasts Preview



1 hr 17 min

PLAY ▶

## There's an Elephant in my Paddock with Julia Telford

[There's an Elephant in my Paddock!](#)

Business

[Listen on Apple Podcasts ↗](#)



Julia Telford is one of the most influential women in Australia in 2018, according to the Australian Financial Review. She's also the founder of Engage & Create Consulting- working with rural and remote businesses, industry groups and community organisations across Australia. Her Elephant in the Paddock is about making difficult decisions... and really honing in on exiting the rural industry gracefully.

To talk about- and hopefully answer her question, we've enlisted the expertise of

- Alison Larard- an agribusiness and finance specialist. She's on the board of the Rural FinancialCounselling Service and has recently wrapped up a Nuffield Scholarship focussing on better business management and succession planning in north Queensland beef businesses.
- Mark McGovern- visiting fellow at the school of economics and finance at the Queensland University of Technology with substantial experience government, trade and rural industries.
- Dr Lisa Patterson Kane- a psychologist, specialising in regional and remote issues for over a decade.

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# Plain English Compendium Summary

<b>Project Title:</b>	<b>Better Business Management and Succession Planning for NQ Extensive Family Beef Businesses</b>
Nuffield Australia Project No.:	1801
Scholar:	Alison Larard
Organisation:	Evelyn Limousins 11564 Kennedy Highway Evelyn QLD 4888
Phone:	+61 458 007 999
Email:	<a href="mailto:alison.larard@gmail.com">alison.larard@gmail.com</a>
<b>Objectives</b>	<ul style="list-style-type: none"> <li>• What is better business management? Identify opportunities for better business management in family beef operations in NQ. How do we move the thinking from being producers to business managers and even entrepreneurs?</li> <li>• Define the impacts of these opportunities on better succession planning outcomes. How do we reach a balance between knowledge and skills that come with experience vs the enthusiasm of youth? How do we encourage the ExGen to embrace change and give the NextGen a go? How do we upskill the NextGen appropriately, keep them enthused but not foster unreasonable expectations?</li> <li>• Approaching the pervasive culture of 'succession at any cost'. Are there learnings from other places/industries as to fostering a culture of being business minded, maybe even entrepreneurial, when approaching succession?</li> <li>• Find models for better strategic planning and management applicable for NQ beef businesses. Is a 'whole of business' approach part of the answer?</li> </ul>
<b>Background</b>	Follow-on from projects such as \$avannaPlan-BeefSense in the Northern Gulf and Southern Gulf regions of NQ.
<b>Research</b>	Years of project and extension activities in the region, lead to a recognition of a lack of quality business management and succession examples in NQ extensive family beef businesses. An opportunity existed to investigating ideas that would help address the shortfall.
<b>Outcomes</b>	Significantly better results in number of countries related to peer-to-peer learning via discussion groups and targeted extension activities
<b>Implications</b>	The isolation of the Gulf country risks perpetuating a culture of "last to adopt" technical and technological advances that have the potential to overcome the cost-price squeeze and ever increasing regulatory requirements
<b>Publications</b>	Nuffield National Conference, Brisbane, Qld, September 2019