

## FAQ 11

### What About Alternative Financial/Organizational Structures for Farm and Agribusiness Firms?

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North Central Regional publication NCR-568 outlines the various alternative financial and organizational structures of farm and agribusiness firms.

#### **Excerpt from *Alternative Financial/Organizational Structures of Farm and Agribusiness Firms* (NCR-568)**

The options and alternatives available to finance and organize farm and agribusiness firms are much broader than traditionally has been perceived (Table 2, p. 6). Combining various organizing and financing options into a complex structure that matches the business and personal objectives of the owner is likely preferred to the more traditional (and relatively simple) organizational/financial structure used in most farm and agribusiness firms (i.e., the sole proprietorship using internally generated equity and bank or other debt). An example structure is summarized in Appendix 1, p.19.

If the dominant concern in the choice of the financial/organizational structure is ownership/control/autonomy, then the options available are severely limited. Many of the more flexible financing and organizing options increase the interdependence and reduce autonomy and control within the firm. Historically, autonomy and control appear to have been the dominant concern in much of Midwest agriculture.

A more diversified financial/organizational structure will typically (but not always) increase the flexibility and reduce the financial risk of the business venture. In fact, diversified financing is an alternative and possibly more effective strategy to reduce risk in many farm and agribusiness firms than diversifying in production enterprises, product lines, and/or business ventures. Consideration of a broader set of options for financing and organizing the business may provide the opportunity to reduce the cost of capital (i.e., the cost of financing) and most likely will increase the availability of funds to finance growth and expansion. Developing an appropriate organizational/ financial structure requires skills in understanding financial markets, instruments, and options, legal arrangements, financial analysis, and negotiation. The choice of the right organizational/financial structure is an important strategic decision that can have a significant impact on the cost, competitive position, and survivability of the business.

**Resource for Alternative Financial/Organizational Structures**

<b>Resources</b>	<b>Sources</b>
<i>Alternative Financial/Organizational Structures of Farm and Agribusiness Firms</i> (NCR-568). North Central Regional publication.	<a href="http://www.ces.purdue.edu/extmedia/NCR/NCR-568.html">http://www.ces.purdue.edu/extmedia/NCR/NCR-568.html</a>

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