

Grooming Your Successors: Notes On Handing Over The Farm

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While some people might joke that transferring ownership of the family farm to the next generation is a form of child abuse, passing the farm down to one's children is still the dream of most farmers. Handing over the reins of the farm is not like handing over the keys to the family car. Keeping the farm in the family for several generations requires good planning, management skills, communication, and in today's economy, a measure of luck.

A U.S. study revealed that although 90% of all U.S. businesses are family controlled, 70% do not survive beyond their founders' departure. Transferring the ownership of a farm, like any business, is vulnerable to numerous pitfalls. Any one of them can reduce the next generation's chances of passing on the farm.

In today's economy, planning succession is more critical than ever, says Derek Fryer, an accountant with Peat Marwick Thorne. "The process of handing over the farm does not happen overnight. There are several issues that should be identified and discussed well in advance of retirement to ensure that the parents are comfortable, and the arrangement is bankable and equitable," he says.

When farm families begin talking about succession, several questions will arise. Can all the children be treated equally? Will there be enough money for retirement; for the children's retirement, and their families? Should ownership of the land, the equipment or livestock be retained? What happens when the children get married? What happens if there is a divorce? Can taxes be avoided?

"The deeper we get into the process, the more complex it gets," says Fred Wein, a second generation nursery grower. Working together, Fred and his brother, Rob, are gradually purchasing a three acre greenhouse/nursery operation, near Cloverdale, from their father.

Like many younger farmers, Fred has a degree in agriculture and wanted to go into the business to be an active partner. He didn't want to work for somebody. Several years ago, he and his brother Rob sat down with their parents and discussed their goals.

Talking about the future of the family business is one of the most important prerequisites to successful succession. The four cornerstones to successful succession, says Fryer, are: Communication, income, management and ownership.

Communication

Perhaps above all else, communication is the key to keeping the farm in the family. Different values, expectations, and ambitions of each individual can often lead to friction. "People" problems can quickly become business and financial problems.

For example, just as the older generation begins to slow down and is interested in consolidating financial resources in safe investments, the succeeding generation is often interested in expanding, and adding new enterprises. This difference in age and stage of life can often create problems. Studies of successful large farms reveal that combining the father's experience with the younger generation's ideas and enthusiasm yields the best results.

Wein concurs. "We discussed what we envisioned for the business—the size of the farm, the size of the house, what kind of income we wanted." Not every communication problem can be solved. Sometimes people have to agree to disagree; but you must appreciate the differences, talk about them, try to sort them out, and where possible use these differences to your advantage.

Understanding and building on the different strengths and characteristics of each member makes for a stronger family management team. Let each other know what your expectations are, and what you would like to achieve and when. Let all family members have a say in charting a course for the business and the role that each member should play.

It's a good idea to schedule business meetings for specific purposes. Purposes may vary. Ownership issues, long-term strategies and on-going production activities need to be discussed. Meetings to talk about ownership and transferring the farm should involve all the stakeholders, including spouses. Wein's wife worked in the business and "that created a better understanding amongst us all."

Meetings to decide what cows to cull, or what fields to seed usually don't need the participation of all the individuals who have a stake in the ownership of the business, but should include non-family, hired employees.

Delegate responsibilities, and have individuals accountable for results. Give them the training, experience, and resources they need to do the job. Not only can this make everybody's job easier, it also can help to develop management abilities and responsibility. "We all found areas of responsibility," says Wein. "Then we scheduled weekly meetings to keep everyone updated."

Keeping in perspective that farming is a business is also an important aspect of good communication. As the old saying goes, "*farming as a way of life is usually pretty poor business, but farming as a business can be a pretty good way of life.*"

Having a positive attitude and a sense of humor are also vital to successful succession. Family members need positive reinforcement to kindle and keep their interest in the business.

The Succession Ladder	
Never	Decide when to pay the bills
40+	Decide and plan capital projects Identify sources and negotiate loans and finance
40	Negotiate sales of crops and livestock
35	Decide when to sell crops and livestock Negotiate purchases of machines and equipment Decide when to take on additional staff Recruit and select staff.
30	Plan day-to-day work Make annual crop/stock plans Decide on long-term balance of enterprises Decide on make of equipment Decide on work methods/way jobs are done Decide on amount and quality of work
25	Supervise staff at work Decide type/level of feed/spray/fert/medication
Hastings, MR (1984) <i>Succession on Farms</i> . Unpublished MSc Thesis Cranefield Institute of Technology	

Management

Developing management skills is something that every generation has to learn anew; they can't be inherited. Just as a person must learn to farm by farming, one must learn to manage by managing. Marketing and financial skills are rarely developed in a systematic and progressive approach on family farms. First generation farmers tend to operate solo and that can lead to difficulties for the next generation.

On most family farms, the father turns over the field work first, then he turns over the labor supervision. Later still, he might turn over some of the investment decisions regarding equipment, buildings and livestock. By this time, the successor might be 40 or 50 years old. Sadly, they likely have felt ready to take over since they were twenty-five.

Typically, the father holds onto the checkbook and the bank account until circumstances force him to relinquish control. This can leave successors poorly prepared to take over and make crucial decisions. While production know-how is essential to running a viable farm business, in the future it won't be enough. Farm management teams are going to require well developed marketing, finance, and human resource management skills.

Rob Wein earned a commerce degree and then gained some valuable experience working in another horticulture operation. "He learned to deal with others," says Fred, adding "it's really important to get experience somewhere else." Fred also feels fortunate that he and his brother were

allowed to get involved in the finances of the business.

That isn't usually the case. The previous table reflects how most farm families hand over management duties. To succeed at succession, however, management opportunities to learn management skills must be offered to successors much earlier.

Ownership

Ownership and tax consequences are often the first issue many farm families look at when they think of succession. But this isn't usually the best place to start.

Most children can't afford to borrow the money to buy out their father or their siblings, especially in these uncertain times. The right ownership plan and business structure for each farm depends entirely on individual circumstances, where the business is going, the needs and aspirations of the different family members. Once each individual's wishes are understood and a consensus regarding a vision for the future is developed, the steps required to implement a succession plan will be obvious.

Details of the business arrangement and corporate structure—preferred, common, or redeemable shares, shareholder loans, operating versus general or limited partnerships, joint ventures, capital gains, capital gains reserves, roll-over provisions, life insurance, etc.—should fit with the overall business plan. Taxes, while important, should not be the focal point or driving force behind any succession plan.

Once a direction for the farm has been identified and agreed upon, an accountant, lawyer, and financial planner should be consulted. They can help the family find the tools needed to minimize taxes.

Of course, changes shouldn't be made too fast. It's best to wait a few years and have a trial period working together, delegating responsibility. "We have a five year plan," says Wein. "My brother and I are purchasing five percent of the business per year until we all become equal partners. Then we'll assess the situation again before taking the next step."

Sources of Stress in Two-Generation Farms	
(1)	Not enough money
(2)	Farm taking priority over family
(3)	Poor teamwork
(4)	Differing time commitments
(5)	Not involved in decisions
(6)	Not being on our own
(7)	Taking more risks than others
(8)	Disagreements over spending
(9)	Criticism from family members
(10)	Feeling like labor.
Weigel, DJ & Weigle, RR (1987) <i>Keeping Peace on the Farm: Two-generation Farm Families</i> . CES Iowa State University	

Income

Having a viable farm with adequate income for the needs of all the family members as well as for retirement is essential. A consensus of how money is to be spent in the business and an acceptance of how personal money is spent outside of the business is equally important.

Every farm is different and requires a different approach. Successful solutions are ones that have enough flexibility to respond to the changing needs and circumstances of both parties, don't tie down farming children with excessive debts and payments, create enough income to meet the living needs of the individuals involved in the farm, and the operating and growth needs of the business.

Unfortunately, financial burdens are split unfairly between generations. Too often this can lead to failure and loss of the family farm. "So far, our plan is working out really well," says Wein. Good communication, a strong management team, delegated areas of responsibility and a solid business plan certainly help in the successful transition from one generation to another.

Successful succession is vital to the financial well-being and long-term survival of Canada's agriculture industry. Family farms remain the dominant and most successful type of food producer in Canada. Presuming they can be successfully passed from one generation to the next, they will remain so well into the future.

Tips and Suggestions

Keep Communication Open

- "Listening isn't waiting for your turn to talk"

Meetings

- Have separate meetings for separate topics—operating/investment, ownership, family
- Understand who is responsible and share responsibility
- Have a current business plan—"talk it out and write it out"

Compromise

- Mutual give and take
- Accept other ideas
- Take turns

Prepare by talking about & practicing Decision-making

- Direction, values, goals, criteria
- As a family, as a business
- Discuss how to resolve differences
- Expert opinion, board of directors

Allow Everyone to Make Mistakes

- We all learn by our mistakes and often experience is the only lesson that really counts

Provide Opportunities to Develop Skills

- Real jobs with real responsibility in all areas of the farm business, including running the checkbook, buying and selling decisions
- Real jobs with real responsibilities are motivational and create responsibility
- Have brief job descriptions and an organizational chart
- Consider separate enterprises or ventures

Keep Lifestyles Out of the Farm Business

Have Agreements Written Out

Keep Everyone Informed

- Include family members who are not active in the farm
- Helps to diffuse jealousies and bad feelings

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