
Keeping the

Family

On the Farm

Communicating for the Future

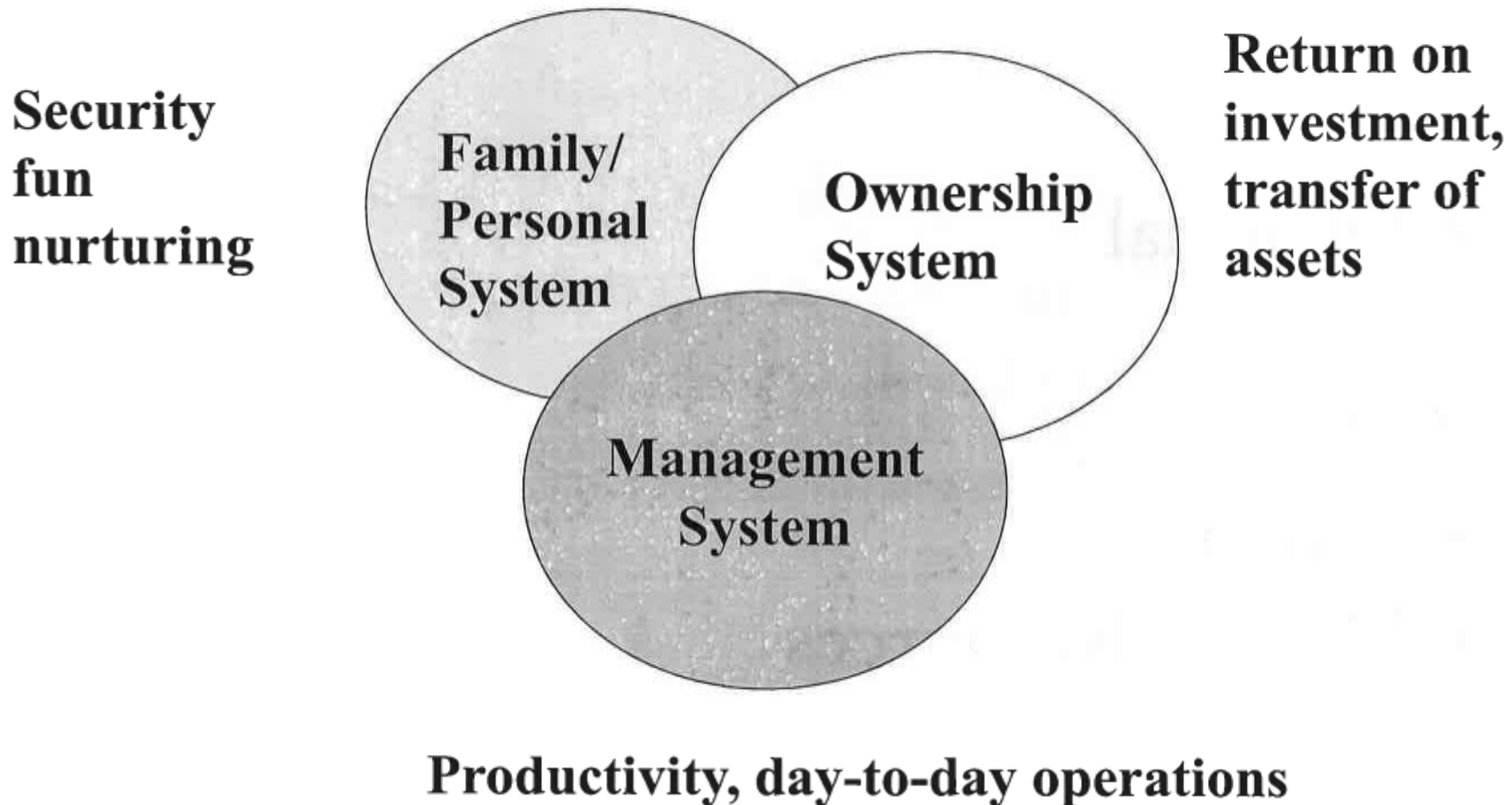
“The future of agriculture lies in the hands of young and beginning farmers. We need to find more ways to help them take the reins of the farm business,”

— Canadian Agriculture Minister Gerry Ritz

“Transitioning the older generation from the business is one of the top challenges facing North American Agriculture.”

- Dave Kohl and Alicia Morris,
Virginia Cooperative Extension

COMPLEXITY OF FAMILY BUSINESS



5 AREAS OF RISK THAT THREATEN FAMILY FARMS

- ✓ Financial
- ✓ Legal
- ✓ Marketing
- ✓ Production
- ✓ Human Resources

Generational Risk Profiles

YOUNG

- ◆ ambitious
- ◆ low experience
- ◆ new ideas
- ◆ no time horizon
- ◆ time to recover from mistakes
- ◆ have little to lose

MATURE

- ◆ risk conscientious
- ◆ lots of experience
- ◆ established style
- ◆ sees a horizon with a setting sun
- ◆ little or no time to recover if losses occur
- ◆ have a lot to lose

CHALLENGES TO FAMILY BUSINESSES

- ◆ The separation of authority from ownership and management.
- ◆ Issues of unfairness in the successor generation.
- ◆ Absence of a shared sense of purpose.
- ◆ Communication problems.
- ◆ Lack of formal structures and processes that manage decision-making.
- ◆ Neglect of individual, family and organizational development (Aspen Family Business Group, 2004).

Common Sources of Farm Family Conflict

- ◆ Control
- ◆ Transfer of property/ownership
- ◆ Division of income...fairness?
- ◆ Obligations, debts, and risks
- ◆ In-law relations and competing loyalties
- ◆ Coping differences
- ◆ Decision making



**"Hey! C'mon! Hold It! Hold It! . . . Or
someone's going to get hurt."**

Farm Transition Planning

- ◆ Much more than estate planning!
- ◆ Weaving of Family Life Cycle with
Business Life Cycle
- ◆ Combines: Career Development Plan
Professional Development
Retirement Plan

Economic Considerations

- ◆ Profitability
 - Pointless to talk about transferring a systematically unprofitable farm or ranch
- ◆ Feasibility
 - Can we make the payments on proposed expansion plans?
- ◆ Size
 - Is the business large enough to accomplish goals?

The Important Point

These decisions are not independent.

All decisions regarding the “structure” of the business need to be made simultaneously, and at the early stages of the planning process....and perhaps again at major transition points

Are You Ready for Farm Succession?

Am I ready to let my child take over the farm?

Am I ready to start giving up some
management decisions?

Do I have other things I want to do?

True or False

- ◆ True – Ready to start transition during life?
- ◆ False – Plan for Transition at Death

Legal Structure Comparison

	Individual Liability	Business Continuity	Mgmt Control	Taxation	Obtaining Capital
SP	Unlimited	None	Proprietor	Individual	Difficult Large Sums
Gen Partnership	Unlimited	None	Partners	Individuals	Limited
Limited Partnership	Limited Limited Partners	None	General Partners	Individuals	Limited
C Corp	None	Perpetual	Board	Double If Distributed	Stock
S Corp	None	Perpetual	Board	Individuals	Stock Limited
LLC	None	Limited	Members	Individuals	Flexible

Organizational, Legal, Financial Structure Decisions

Organizational Structure	Legal Structure	Financial Structure
Command and Control	Sole Proprietorship	Debt
Bureaucratic	General Partnership	Equity
People Oriented	Limited Partnership	founder
Hybrid	C – Corporation	family
	S – Corporation	friends
	Limited Liability Company	financial inst
		contacts
		venture capital
		general public
		grants, etc

Why Talk About Mission and Values?

- ◆ Forces you to ask the most important questions such as what are you here to do and why?
 - ◆ Focuses all future decisions and actions
 - ◆ Builds unity within the family
 - ◆ Increases motivation during tough times
 - ◆ Increases the chances of success
 - ◆ Increases happiness and satisfaction
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Mission Statement

Describes what the farm
business/farm family hopes
to be and do.

Getting What You Want From Your Family Farm Life

- ◆ What is most important about having a farm?
 - ◆ What do you value about family life?
 - ◆ What issues do you have with other family members? What conflicts are unresolved?
 - ◆ What do you want to be different in your relations with other family members?
 - ◆ What do you want to stand for and preserve as a family?
 - ◆ What issues does the farm business need to address in the next ten years that will significantly impact the family and me?
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Writing Your Farm Mission Statement

- ◆ Set aside quiet personal time to do this exercise
 - ◆ Think and dream the “big picture”
 - ◆ Have other family members do this exercise
 - ◆ Share individual mission statements
 - ◆ Together write a farm mission statement
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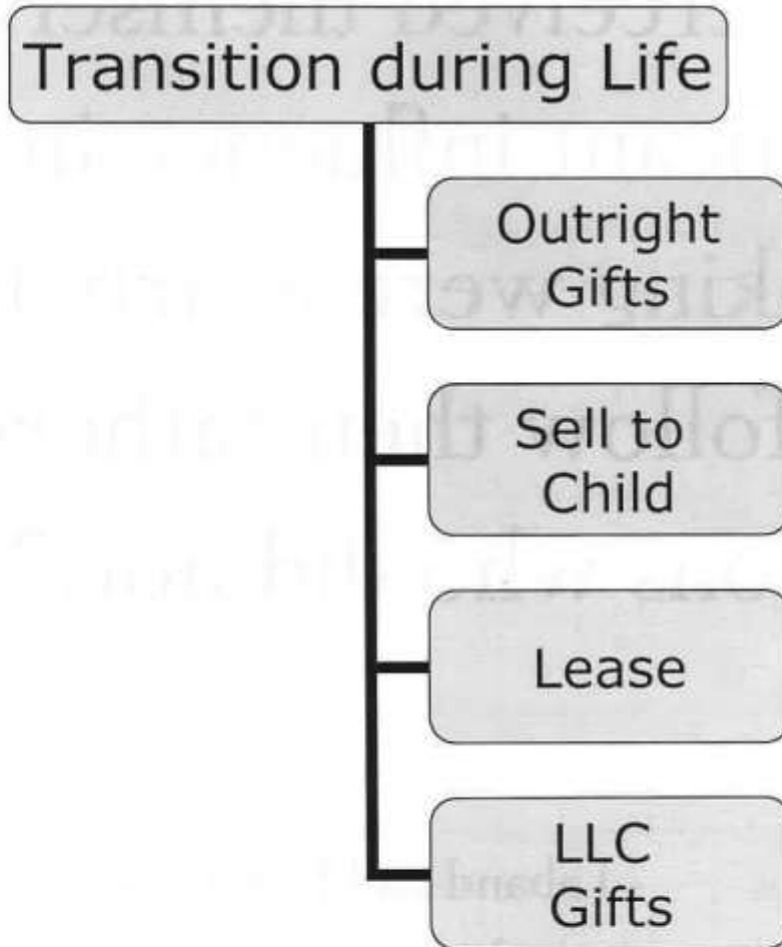
Gaining the commitment of your children to the family business

- ◆ Facilitate open communication about succession
 - ◆ Give them the freedom to choose
 - ◆ Communicate the benefits of working in the family farm business
 - ◆ Encourage an outside work experience
 - ◆ Allow them real management responsibility
 - ◆ Prepare a backup plan in case things don't work out
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“Sons who perceived themselves having significant influence in family decision making were nearly twice as likely to follow their fathers in farming as sons who did not.”

- Laband and Lentz, *American Journal of Agricultural Economics*, 1983.

During Life



Transfer at Death

- ◆ Specific Land to Child
- ◆ Option or First Refusal
- ◆ Special Valuation for child
- ◆ Keep farm together

*Understanding Farm Family Stresses
During Succession.....*

**Factors that Drive the Decision to Continue or
Leave Farming**

1. Current financial condition and projections

-current farm financial status

-financial/income/living standards goals (are we comfortable at the level we're at or projecting or do we aspire to more?)

Factors:

2. Estate Planning issues, retirement financial goals, inheritance tax issues
3. Lender's input
 - Other decision-makers (lender may make the decision by setting the limits)

Factors....

4. Confidence / projections

- Projections (are current conditions likely to change in near future....and in better or worse direction?)
- Is it likely to get better or worse? 1,3,5 year?
- Endurance -- mental and physical, attitudinal and financial (do we have the resources to ride it out?)
- Resources (does the farm have the resources to be competitive in the enterprises we wish to pursue?)

Factors....

5. Comparison with Alternatives

- What other options do I have and how attractive are they?
- Whole range of factors involving age, education, experience, geographic mobility, etc. come into play here.

Factors....

6. Family Legacy and other family emotional factors

- Other family members' commitment to future of farm operation (spouse, siblings, parents, etc.)
- Son and/or daughter taking over the farm?
- Guilt, scripting of family roles, blame, etc. etc.
- Where are other significant partners (spouse especially) with this decision?
- Estate planning issues, retirement financial goals, inheritance tax issues.

Factors....

7. Personal/Emotional factors

- What keeps me here?
- What would lead me and motivate me in a different direction?
- Can I live with this decision?
- How will I and/or my family adapt/cope to/with this option? (which could also apply under Comparison of Alternatives).

LESSONS LEARNED

- ◆ Transition planning seems to raise personal awareness and willingness to discuss values, mission, vision, etc. of the family farm.
- ◆ Important to use transition planning as an opportunity to infuse mission, vision, and goals into the overall management of the farm, and by doing so to improve the health and vitality of your family relationships.

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