

Succession Planning for the Dairy Farm Business

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Introduction

Succession planning is a family-by-family challenge. No two farms or families are alike. To illustrate, a farm couple with one adult child in the business and four other children not in the business has a dramatically different situation than another couple with two adult children, both in the business.

Tax issues, estate planning, business viability, financing and proper legal documentation often dominate succession planning and farm-transfer discussions. Family relations and issues such as goals, timing, communication and fairness typically receive far less attention. These often unappreciated issues, however, are the focus of this article.

Goals

Families have a wide variety of goals for succession planning. Current owners usually select one or more of the following goals: treat children fairly, treat children equally, assure financial security for retirement, continue the farm as a viable business, keep the land in the family, avoid taxes, create farming opportunities for children, keep the land in agriculture, take advantage of development opportunities, assure a place to live during retirement, treat long-term key employees fairly and support favorite charities.

This list of possible goals includes three types of goals: business, family and personal. Succession planning is rarely limited to just one of the three. On the other hand, balance among business, family and personal concerns is unnecessary. The current owners of the business can choose to emphasize business continuity over the financial well-being of their children or vice versa, just as they can favor a charity over their children.

Timing

Sooner is better than later. It is far more common to start too late than to start too early. Farm parents of young children should begin to think about transferring the business. They should ask: Are we raising our children to believe that staying on the farm immediately after high school is a good idea? Are we teaching our children that we expect them to choose a career that makes them happy and that no interest in farming is okay? Are we teaching our children to expect an opportunity to farm or are we teaching them that they will

have to earn it? Are we raising our children to believe that we will be ready to retire when and if they want to farm?

During the time that one or more adult children are making choices about their careers, parents should be ready to provide information about their plans for transfer of the business to the next generation.

As parents approach an age when they are no longer able or willing to keep the farm business going, they need to make clear to all involved what they intend to do with their investments in the business.

Avoiding farm-transfer questions until one is on a deathbed at an advanced age is clearly waiting too long. Such avoidance of important decisions is both selfish and unfair to a surviving spouse and the next generation.

Communication

Communication is essential! Communication is the best way to avoid confusion, prevent hard feelings, minimize gossip and discourage false expectations of wealth, control and power. Communication, however, never guarantees sidestepping all of these potential problems. Communication is a tool rather than a recipe for avoiding difficult decisions.

The senior generation has the responsibility of assuring that communication is frequent, easy to initiate, clear, consistent and helpful. Parents should teach the family to communicate long before facing emotional and difficult transfer issues. Adults raised in a family that avoided honest communication are unlikely to have effective communication about farm transfer with their parents and siblings. People who were poor communicators as children cannot find a magic button to press to become good communicators as adults.

Communication should be both oral and in writing. Family meetings about family transfer should be preceded by informal oral communication. However, limiting the communication to informal conversations means that people's memories will be the key to remembering months and years later what was decided. Family meetings on farm transfer are most helpful when they are businesslike, with written summaries available to all who attended.

Fairness

There is no best way to guarantee fairness. What is fair or equitable is often a matter of judgment, emotion

and perception of the facts. The parents may see value and opportunity quite differently from their children. A sister who has worked on the farm for the last 20 years alongside her husband may view “fair” quite differently from her brother, who has lived in California all this time with only rare and disinterested visits to the parents.

Ideally, parents prepare their children for the transfer with careful explanation of their decisions and the reasoning behind the decisions. Information from the parents, communicated honestly and often, is the best way to gain acceptance of the parents’ decisions about transfer.

Gaps

Farm families can easily overlook important factors in succession planning causing important and troublesome gaps. “Do we have a business to transfer or do we have some farm assets and a house to transfer?” is a question that may be overlooked. Parents may be planning the transfer of a business that has provided them an acceptable income. However, the children may see no opportunity for the farm to continue in business. The parents are asking, “How can we transfer the business to the next generation?” The children are asking, “Should we sell the farm assets and divide up the money or should we sell everything but the land and rent it out?”

Parents may overlook the fact that their children’s goals for the farm are quite different from theirs. Children may have goals and needs that are misunderstood by their parents and siblings.

Parents may overlook the need to update their transfer plans on a regular basis. The plan that fit the 2003 circumstances may have serious flaws by 2013. Annual review of the transfer plan is helpful. Any needed changes should be made and communicated in writing to those directly affected.

Children may overlook the possibility of their parents living beyond the time that the children themselves are ready to retire. On the other hand, both parents and children may resist considering the possibility that death could come at any time to anyone involved in the transfer plan.

Second marriages, chronic illnesses, widowed and widower in-laws, new economic opportunities and emergence of an employee playing a critical role in the business are examples of possibilities easy to overlook in planning a transfer.

Retirement

Many older farmers never really retire. The next generation of managers often faces advice or criticism from the “retired” generation that is neither wanted nor

helpful. Addressing this potential problem before the transfer works better than waiting until the problem has become a major irritant for everybody involved. The succession planning should include careful discussion of the new roles that the affected parties will play.

The next generation needs to have an open mind about advice and criticism. The previous generation’s wisdom and experience may at times have much value.

Meddling

Owners/managers who have passed on management responsibility can still have legitimate interests in the business. These interests are likely to extend beyond those from continued partial ownership of farm assets. The “retiring” owner/manager needs to develop an understanding of how to best obtain needed information from the next generation.

Best is for the “retiring” farmer to build a good relationship with the younger manager. Some older farmers are revered in the family and considered a valuable ally. Others are considered a nuisance who do far more harm than good. The difference is often the quality of the relationship that has been built over many years, not the importance of what Dad or Mom has to offer.

Relationships are built on communication and respect. Both generations need to work hard at their relationship. Neither can do it alone. When the older person has questions or concerns, he should ask himself, “Is this question or concern really my business?” “Will my question or concern help improve anything?” “Have I given the situation enough time?” “Have I been asked to speak up when I have questions or concerns?” “What is the worst thing than can happen if I just keep my mouth shut?” What is the most good that could come from my getting involved?” Calmly and honestly thinking through these questions is likely to give the retiree a pretty clear answer as to whether or not to raise a question or concern.

Disagreement

Conflict rarely can be completely avoided in succession planning and the changes to follow. The best way is for a family to work through its disagreements. The key is for the family to have a determination to create win-win situations. Such a family is likely to be strongly committed to coming through the transfer whole. They accept going in that there is likely to be some turmoil, but none that is beyond their ability to handle.

Some families fall victim to strong positions taken by one or more of the children. Strong positions taken early in the discussion nearly always assure conflict. For these people, winning the fight is more important than

preserving family relations or transfer of the business intact. Legal action for such a family may be the outcome. Hopefully, however, legal action can be prevented because a respected family member steps forward to serve as a mediator and pacifier. This important role may also be played by a neutral outsider hired to help the family work through its problems.

Here again, the importance of the older generation providing leadership for management succession and business transfer is apparent. The parents' experience with their children, clear transfer goals, decisiveness in transfer planning, open communication, respect and love for all of their children and patience can help them handle conflict better than anyone else.

Reminder

"I never thought this would happen to my family." The fact is, family turmoil can blow apart any family when power, money, prestige and fairness are involved.

Some families handle succession beautifully and are stronger for it. So often, however, family closeness, resources and goodwill are sacrificed. Yet no family starts succession planning with a forgone expectation of failure.

Knowing common pitfalls and understanding basic guidelines can dramatically increase the chances of success in succession planning. Working closely with one or more people experienced in helping farm families work through transfer challenges can also be helpful. The following are potentially valuable as sources of information and incentive to keep the process moving along to conclusion: attorney, accountant, insurance adviser, financial analyst, financial planner, farm business analyst, lender, business consultant, and family business relations consultant. Fees paid and time spent with outside specialists may seem substantial up front, but are minimal compared to the personal and financial hardship that can come from poor planning and family conflict months or years down the road.