

# Families Must Plan To Transfer Farm Business To Next Generation

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**T**ransferring a farm business from one generation to the next presents many challenges as many farm operations involve large acreages and capital investments while some family members do not plan careers in farming.

At the recent American Society of Farm Managers and Rural Appraisers annual meeting, the process for making a successful transfer revealed the many steps involved.

Donald Doudna, president of the Rawls Family Business Resource Center in Iowa recognized common goals as families face up to the transfer from one generation to the next:

Families must plan for transfer rather than let it happen. In this planning process, family members must look for ways to enhance family harmony. They must also face up to the consequences of not having a succession plan.

Without a succession plan, Doudna listed some possible consequences: a split up into multiple units with less profit or viability; forced sale of land or other property in a down market; reduced farm income and reduced farm value; transfer of assets to the wrong member of the next generation; loss of credit line with lenders; failure to keep assets and family involved in the community.

Doudna presented two basic approaches for success. First, he called for the family to define and meet personal objectives of all generations before taking up legal and accounting tools. The parents may be reaching an age when they want to slow down. Family members in the farming operation may have certain preferences for what they like to do and do best. Family members outside the farming operation may need funds to operate an independent business and eventually receive a share of the family estate. He warned that the biggest mistake is to focus on tax savings and not on meeting the personal needs of family members.

Another basic approach for success is to define the farm and business management goals. The tools to do this involve a strategic and operational plan, an educational program plan that will prepare the next generation of farm op-

erators, plans to contribute to community organizations, and incentives to achieve success.

Successful planning involves a family strategy to keep all involved, a business strategy to maintain a viable operation, analysis of family and team strengths using interviews usually by an outside consultant, defining the personal objectives of each person involved, a development plan, incentive plans to encourage active cooperation and participation, taking care of non-operating family members, planned internal and external communication, a focus on shared responsibility, and recognizing the need for involvement of the whole team.

In this process of successful planning, the question of fairness and equal treatment will often emerge. Equal treatment may not always involve equal division of money. Fairness may require that those family members who have worked in the farm operation require a greater share of the farm assets to meet their personal and business goals.

The planning process will involve a number of steps over a period of time. For that reason, the planning process should begin long before the death of the father or principal operator. So the family must carefully determine whether dad wants to keep or sell the farm. The family must assess the probability if one or more sons can grow into the key operators and run the whole operation. The roles for dad, mother, son, and off farm children should be determined. Estate plans including wills and buy-sell agreements should be reviewed.

The future roles of each family member needs to be defined and how each will be compensated. Some time lines will be needed depending on age and composition of the family. Ongoing meetings of the family council should be scheduled. Legal documents should be refined and arrangements with banks and credit sources put in place.

Doudna recognizes that strategies may be needed to manage all family members in this often delicate process. His recommendations include a Family Business Council, defining roles and responsibilities for each member, setting up operating plans and covenants, establishing family employment policies, setting up advisory boards, and maintaining direct communications. Δ

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