



Generational Transfers

Questions to consider before returning home to the family farm or ranch

There is a bright future for production agriculture. Demand for food, including both basic items and higher value items, continues to grow. Despite cyclical price swings and other economic challenges, many individuals have been able to build a significant net worth through farming or ranching.

The time demands for any business owner are generally more than for the employees of the business, and farming and ranching are no exception. However, if you really enjoy the work, and your family enjoys the lifestyle, it can be very rewarding.

Although some are able to start from scratch and build a viable operation, it is more practical to work into a family operation if you want to eventually be an owner of a farm or ranch.

The bottom line is that farming and ranching are great careers for those with the right skills, work ethic, family support and desire. However, before you decide to return to the farm/ranch for a career, or before parents allow a child to return, there are some questions that need to be asked and answered by all involved.

If your farm or ranch is in the midsts of or working towards the next generation taking over the operation, carefully consider the following questions individually and as a family. There are not necessarily right or wrong answers, but all parties should know and understand the situation before committing to an arrangement. Open dialogue will help make the transition as smooth as possible and ensure everyone involved understands the expectations of the others.

Is the operation able to financially support another family?

- Does the operation generate sufficient profits at this time to be able to support another family without jeopardizing the livelihood of those who already depend on it?
- Will the family member who is joining the operation add to labor expense without any corresponding increase in income or decrease in other expenses?
- Will the family member who is joining the operation replace another hired employee but be paid significantly more than the former employee?

What are the expectations of the generation coming into the operation?

- Is the expectation to work hard, live frugally and build either equity in the ranch/farm or personal savings for more than just a couple of years, or is the expectation to live well and benefit from the equity that has been built by prior generations?
- Is a new house that is slightly larger than mom and dad's needed, or will grandma and grandpa's old house or the rental home in town be adequate for the foreseeable future?
- Will there need to be time off and adequate money for the type of vacations that mom and dad take now, or will it be okay to work long days and not have a lot of expensive trips until your own children are raised?
- Is there an expectation to immediately be an equal partner, or is there an expectation that it will take time to demonstrate the ability to succeed and to gain the confidence of the older generation?
- Is there an expectation to inherit most or all of the farm/ranch with siblings who did not return to the operation receiving significantly less?

Questions to ask before returning to the family farm or ranch *continued*

How does the established generation view the business relationship with the new generation?

- Will mom and dad be willing to discuss important business decisions and openly listen to the opinions of their adult children?
- Are mom and dad willing to open the books and show how the finances are doing?
- Will mom and dad allow the next generation to assume increasing responsibility as they demonstrate the ability to handle more?
- Do either mom or dad have such a strong desire to be in control that they will always view the younger generation as just “a very good hired hand”?
- Do mom and dad recognize that it will probably be impossible for the next generation to purchase their equity in the farm/ranch for fair market value and keep a viable operation?
- Are mom and dad willing to transfer a significant portion of their potential retirement to the next generation?

What are the expectations of siblings?

- Are siblings who are already actively involved in the operation supportive of having you return to the farm/ranch?
- Are there younger siblings or siblings who are currently working elsewhere who may also want to return to the farm/ranch? Will the operation be able to economically support all who want to return?
- Are siblings who are not actively involved in the operation expecting to receive a full share of the market value of the ranch/farm as an inheritance?

Does everyone have similar core values?

- Is there a basic agreement about how people should be treated? This includes employees, neighbors, and others you do business with.
- Are their similar attitudes towards how much time should be spent working as opposed to recreation? In other words, will everyone have a similar level of devotion to the farm/ranch?

Does everyone have similar attitudes toward risk?

- Do some see debt as a terrible thing and others see debt as no big deal?
- Do some like to gamble that prices will go up if we just hold out a little longer and others like to take the sure thing even if it means leaving some money on the table?
- Do some like to plan ahead and others like to play it by ear?

How does your spouse view the lifestyle and the necessary sacrifices?

- There are a lot of sacrifices that go along with owning your own business, particularly in agriculture. This includes time spent at work, available cash going into equipment rather than a new car, emergencies that disrupt plans, etc. If both parties in the marriage don't have a similar appreciation of the benefits of the farm/ranch lifestyle, the sacrifices can be hard to take.



Questions to ask before returning to the family farm or ranch *continued*

How will you balance fresh new ideas with lessons learned by experience?

- Is the relationship such that the younger generation can suggest changes based on what they have learned in school or observed on other operations?
- Does the younger generation have enough respect for mom and dad to accept that they have learned some lessons to success that may not be taught in a classroom?

How will you establish and document business objectives?

- Are family members willing to have formal business meetings?
- Are family members willing to have spouses attend business meetings where major issues are discussed? For example, discussions about getting new loans that will be signed by the spouses.
- You can't just assume that because "we are all from the same family" that "we all want the same things from the farm/ranch."
- Do you want to maximize profits from the current operation by controlling expenses, even if it means working more hours or drawing less of a living expense?
- Do you want to expand the operation so that living costs and other overhead expenses are spread over a larger base, even if it means incurring more debt?
- Do you want to purchase equipment or technology that will reduce the amount of time required to do the necessary work, even if it means increasing debt and the payments on debt?
- Is it more important to generate cash that can be used to support an established standard of living or to build equity in the operation?
- Is the farm/ranch viewed as an asset to provide a retirement for mom and dad, but to be eventually shared with all siblings – even those who are not actively involved in its operation? Or is the farm/ranch viewed as an ongoing resource for those who choose or who are lucky enough to remain active in it?
- Should the operation be expanded to provide work for all siblings who want to return? Or should it be managed conservatively so that the livelihood of those already working there is not jeopardized by bringing on more family members?
- After objectives are once established, will your family be able to effectively review them and consider changes as circumstances warrant?

How do you plan to deal with a family member whose job performance doesn't meet the needs/expectations?

- It is often emotionally difficult to reprimand or fire someone who is not getting the job done. It is even harder when it is a family member. However, most operations cannot afford to have an employee who is unable or unwilling to perform at a high level. What would happen if your family operation experiences this kind of problem?
- Sometimes a family member is given too much responsibility or responsibilities that are not a good match with their individual skills. Would your family be willing to address and correct this type of problem at the risk of hurting someone's feelings?



Questions to ask before returning to the family farm or ranch *continued*

How well does your family communicate; particularly when there is stress?

- Every business has occasional stress. Can your family deal with such situations constructively, or is it likely that high levels of stress will cause things to be said that will cause bad feelings long after the stress is over?

How much risk is there of jealousy between family members; between spouses?

- How do you feel if your siblings have something nice that you don't have yet? How do they feel about the nice things that you have?
- Do any of the siblings feel like other siblings receive preferential treatment by your parents?
- Do you really work well with your siblings, or is there an undercurrent of competition?
- Ask all of the above questions regarding the spouses of those involved in the operation, but multiply the impact by five.

Who will be the decision maker when there are different opinions?

- There will not be full consensus on all decisions. When there is a disagreement on what is best, who will decide what action to take? Why is that person the decision maker?
- Do you feel that the decision maker is really the individual in the family who is best qualified to be the decision maker?
- If you are not the decision maker, how will you cope with decisions that are contrary to what you would do?
- How do others in the operation respond when a decision is made that is different than what they would have chosen?

What happens if it doesn't go as planned?

- Will it be feasible to end the business relationship if things don't work out?
- Can the younger generation find another career?
- Will the operation be left vulnerable due to increased debt or lack of available labor/management?
- How will personal relationship with other family members be impacted if things don't work out?

All parties don't have to have identical answers to the questions above. In fact, sometimes it helps to have both an accelerator and a brake pedal. The critical thing is that everyone is able to work together and not work against each other to ensure the future viability of not only the operation, but of family relationships as well.

