

# Farm Succession



## SOCIAL SUSTAINABILITY ON THE FARM INFO BRIEF

For Extension Educators, Agriculture Service Providers And Others Who Support Farm Families

### FARM SUCCESSION DEFINED

The term “farm succession” is typically used to mean the same thing as “farm transfer” and/or “farm transition.” However, in working with farmers, it may be useful to distinguish these terms, especially when thinking about the social issues faced by farm families. For example, “farm transfer” generally refers simply to the transfer of farm assets, including real estate. “Farm transition” may be defined as the transition of assets as well as labor and management from one generation to the next over time.<sup>1</sup> “Farm succession,” on the other hand is defined as “a process whereby the traditions, skills and capital of farming are passed from one generation to the next,”<sup>2</sup> and/or “social decisions involved in managing the value and role conflicts that normally arise when transferring the farm business and property.”<sup>3</sup> So, “farm succession” is a more holistic term that encompasses an ongoing intergenerational process that includes “not one thing but many... driven by a developmental clock,”<sup>4</sup> that involves not only the movement of assets equipment, livestock, real estate, etc.) from one generation to the next, but also the transfer of knowledge, skills, and cultural values.<sup>5</sup>

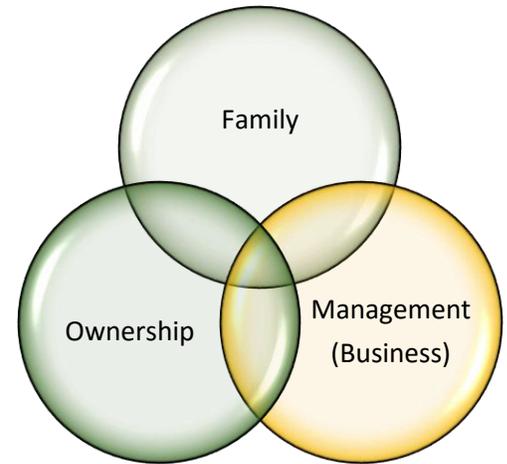


Figure 1. Conceptual model of the family business by Taguiri and Davis.

### WHY IMPORTANT? WHY YOU SHOULD CARE

Because family and closely-held businesses generate about six trillion dollars per year and account for more than 60 percent of the gross domestic product in the U.S.,<sup>6</sup> the health of these businesses is critical to our economy and the fabric of our communities. Ninety percent of all businesses in the U.S. are family businesses! These businesses are represented in almost every sector of the economy, employ half the workforce in the country, and also generate the most new jobs.<sup>7</sup> In Vermont, the dairy industry alone brings in \$2.2 billion in annual economic activity and makes up 70% of the state’s agricultural sales.<sup>8</sup> The value of agriculture to the state of Vermont is thought to exceed \$4.1 billion in both direct (agricultural sales and ag-related employment) and indirect economic impacts, including tourism and agricultural support services.<sup>9</sup>



Further, 1,250,000 acres or 21% of Vermont’s total land base is occupied by farming activities, the highest percentage of farmland of all six New England states. Although agriculture is important to the region, it is also threatened. The American Farmland Trust has identified New England and Eastern New York among the top ten farm regions most threatened by development.<sup>10</sup> And, with four times as many Vermont farmers over the age of 65 as those under age 35, successful farm succession strategies are critical to ensure a healthy future for agriculture in our state.

### HOW YOU CAN HELP: WORKING WITH FARM FAMILIES TO IMPROVE SUCCESSFUL FARM SUCCESSION

The research literature reveals several themes characterizing successful farm succession. Among them are effective communication, business viability, timely retirement and estate planning, and effective utilization of service providers. Drawing on systems theory, we can look at family farm succession as three interconnected sub-systems (Figure 1)—family, ownership (farmland and assets), and management (business and farming know-how)—all of which need to

function well both independently and with each other for successful succession to occur. The following are some potential ways that you, as an agricultural service provider no matter your area of expertise, might work with farm families to help improved farm success.

✓ **Facilitate a farm and/or family meeting.**

Family harmony and effective communication are critical to successful farm succession. Researchers<sup>11</sup> suggest that strained family relationships and passive communication (i.e. the “wait and see” approach) hinders effective succession. Therefore, conducting regular family meetings is critical in improving interpersonal relations and communications, as well as understanding goals and expectations of all individuals involved in the farm and family. Family meetings tend to increase perceived family harmony, a finding consistent with the family firm literature.<sup>12</sup>



As professionals who routinely attend staff and other professional meetings, we know the ins and outs of running a meeting, which may be unfamiliar to some farm families. Even helping farmers develop a meeting agenda may a helpful resource in getting them started with family and/or business meetings.

✓ **Suggest step-by-step actions to take.**

Since farm succession is a complex blend of family, ownership, and management, many farm families find the process to be overwhelming and, because of the potential for conflict and/or emotions to arise along the way, often delay decision-making and putting a succession plan into action. Therefore, it may be helpful to approach a farm succession gradually, in concrete steps. Although there is no one way to enter into or exit from farming, a typical progression is to first transfer farm labor responsibilities.<sup>13</sup> Management decision-making responsibilities tend to be transferred next—first production decisions, followed by marketing decisions, and then financial decisions. Transfer of physical assets tends to follow, first equipment and machinery and finally, the farm buildings and land.

Suggesting small doable actions that family members can take step-by-step may help break the down farm succession into “digestible chunks” – by simply helping farmers keep track of their accomplishments, no matter how small, will help sense of action toward succession goals.

✓ **Encourage timely planning.**

Research has shown that the business founder is often unable to effectively relinquish control of the operation in a timely manner<sup>14,15</sup> -- this “founder control issue” is common among family firms of all types and sizes (not just farms) and may be a leading barrier to effective succession planning. However, timing decisions significantly affect the future profitability of the farm.<sup>16</sup> Many farm business management advisors recognize that delays in succession planning may significantly limit transfer options available to the family. The literature shows that farm families need to transition the farm business before a decline occurs—avoiding timely transfer of business assets and management authority may result in the end of the farm business altogether.<sup>17,18</sup> Readiness—on the part of the both generations—is also a key concept to effective succession. For the senior generation of farmers, studies have shown that few have effective estate plans or retirement strategies in place; for example, a 1994 survey of Wisconsin dairy farmers found that nearly two-thirds of families who indicated a desire to exit farming within three years had done little or no retirement planning.<sup>19</sup> Therefore, attention and support to developing retirement and estate plans is key to succession readiness. On the part of the junior generation, readiness includes financial and business planning. Therefore, any cues or assistance service providers can give farm families act on some element of their succession plan may encourage timely planning.



✓ **Recognize different roles within the farm business and within the family.**

In farm succession, family members may share different priorities and goals, based on their roles within the family. For example, researchers<sup>20</sup> found differences in priorities based on gender--men tended to view profit as a high priority, while women identified good family relations as a high priority. Different goals may be shared by the senior generation versus the junior generation of the farm family. And farming and non-farming heirs may also view farm succession priorities

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differently. Recognizing and acknowledging the different roles based on gender, generation, and position in the farm business is important to successful transitions.

✓ **Stay positive.**

Actions portray optimism and encouragement. Studies have shown that the junior generation of farm families is particularly vulnerable to stress which may contribute to their premature exit of the farm business; therefore, this population must also focus on personal resilience strategies to manage stress.<sup>21</sup>

## HOW TO MEASURE: POTENTIAL INDICATORS

In looking at ways to measure farm succession, the following indicators may help families and the agricultural service providers with whom they work evaluate dimensions of succession on the farm.

Condition/Context/Setting	Indicator/Evidence	Sample Questions for farm
<b>Readiness (including emotional readiness among the senior generation, and business knowledge and skills among the junior generation) for transition.</b>	Farm ownership structures in place to suit a transfer of assets from generation to the next. Presence of estate and retirement planning, including documents like wills.	Are your family and farm business needs and goals defined? Do family members have wills, retirement plans, and estate plans in place?
<b>Succession support.</b>	Use of advisory services. Farm family use of professionals for technical assistance.	Do you work currently work with an agricultural service provider on farm succession planning?
<b>Continuity value of the farm.</b>	Viability and adaptability of the farm business. Farm successor identified. Stable and supportive community.	Can your farm afford to bring on another generation? Viable biz? Roles of successor? How about non-successor? (stake??) How are all next generation members of the farm treated?
<b>Effective communication among family members; family harmony.</b>	Routine, structured family and business meetings.	Does your family farm conduct meetings to discuss the business and its future?

## SELECTED RESOURCES AND TOOLS ON FARM SUCCESSION WITH FARM FAMILIES

- **Family Farm Succession in Vermont.** This website, led by Dr. Bob Parsons, agricultural economist at the University of Vermont, contains a number of resources on farm transition planning including farm family case study and other videos, a virtual Transferring the Farm workshop, and additional resources. <https://www.uvm.edu/farmtransfer/>
- **Land for Good** is a non-profit organization that works with New England farmers and farmland owners on land access, tenure and transfer. They have local field agents that provide direct assistance to individuals and families, as well as develop and provide educational resources on their website. <http://landforgood.org/>
- **Guidelines for Transfer & Succession Plans, Vermont Farm and Forest Viability Program.** This document provides some concrete steps that farmers can take in succession planning; it includes a transfer plan checklist. <http://www.vhcb.org/Farm-Forest-Viability/wp-content/uploads/2012/08/VFFVP-Guidelines-for-Transfer-and-Succession-Plans.pdf>

- **Farm Succession Guidebook, California FarmLink.** <http://www.californiafarmlink.org/succession-planning/farm-succession-guidebook>
- **Transition and Estate Planning, Iowa State University.** List of fact sheets and checklists. <https://www.extension.iastate.edu/agdm/wdbusiness.html>
- **Rural Minnesota Life: Family Business Succession.** Worksheets and presentations generational communications. <http://www.cehd.umn.edu/fsos/projects/ruralmnlife/succession.asp>

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- <sup>1</sup> Baker, J., M. Duffy, and A. Lamberti. 2002. Farm succession in Iowa. Iowa State University Extension Publication.
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- <sup>3</sup> Danes, S. and Y. Lee. 2004. Tensions generated by business issues in farm business-owning couples. *Family Relations* (53)4: 357-366.
- <sup>4</sup> Gersick, K.E., J.A. Davis, M.M. Hampton, and I. Lansberg. 1997. *Generation to generation: Life cycles of the family business*. Harvard Business School Press, Boston, MA.
- <sup>5</sup> Ward, J. 2004. *Perpetuating the family business: 50 lessons from long-lasting successful families in business*. Palgrave MacMillan, UK.
- <sup>6</sup> Poza, E. 2007. *Family business*, 2nd Edition. Thomson South-Western, OH.
- <sup>7</sup> Ward, J. 2004. *Perpetuating the family business: 50 lessons from long-lasting successful families in business*. Palgrave MacMillan, UK.
- <sup>8</sup> Kosakowski, A. 2015. New study highlights the value of Vermont's dairy industry. Vermont Agency of Agriculture Food and Markets. [http://agriculture.vermont.gov/pr/new\\_study\\_highlights\\_the\\_value\\_of\\_vermonts\\_dairy\\_industry](http://agriculture.vermont.gov/pr/new_study_highlights_the_value_of_vermonts_dairy_industry) (accessed 3 Oct 2016).
- <sup>9</sup> Altendorfer, I., D. Holland, A. Isaacson, and A. Gierzynski. 2010. Economic impact of agriculture in Vermont. University of Vermont James M. Jeffords Vermont Legislative Research Service. Available at: [www.uvm.edu/~vlrs/Agriculture/agric%20econ%20impact.pdf](http://www.uvm.edu/~vlrs/Agriculture/agric%20econ%20impact.pdf) (accessed 3 Oct 2016).
- <sup>10</sup> (Sorensen et al., 1997).
- <sup>11</sup> Kaplan, M.S., J.F. Nussbaum, J. C. Becker, C. Fowler, and M.J. Pitts. 2009. Communication barriers to family farm succession planning. *Journal of Extension* 47(5): 1-9.
- <sup>12</sup> Habbershon, T.G. and J.H. Astrachan. 1997. Research note perceptions are reality: How family meetings lead to collective action. *Family Business Review* 10(1): 37-52.
- <sup>13</sup> Keating, N.C. and H. McCrostie Little. 1994. Retirement and succession in farm families in New Zealand (South Island). New Zealand Ministry of Agriculture and Fisheries (MAP) Policy Technical Paper.
- <sup>14</sup> Poza, *ibid*.
- <sup>15</sup> Ward, *ibid*.
- <sup>16</sup> Kimhi, A. 1994. Optimal timing of farm transferal from parent to child. *American Journal of Agricultural Economics* (76): 228-236.
- <sup>17</sup> Keating, N.C. 1996. Legacy, aging, and succession in farm families. *Generations* (20): 61-64.
- <sup>18</sup> Kimhi, *ibid*.
- <sup>19</sup> (Stevenson et al., 1996).
- <sup>20</sup> Danes and Lee, *ibid*.
- <sup>21</sup> Weigel, D.J. and R.R. Weigel. 1990. Family satisfaction in two-generation farm families: The role of stress and resources. *Family Relations* (39)4: 449-455.

This info brief was developed by Debra Heleba, Vermont SARE Coordinator, and has been reviewed by a team of University of Vermont (UVM) Extension faculty and staff as part of the Social Sustainability on the Farm professional development project, 2017.



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