Empowering Young Farmers to Achieve Family Succession Planning Success

Strategies for Farming Success in the Shark Tank of WHAT IF by Mapping Out a Business Contingency Plan for Farm Ownership Succession and the Transition of Management Control to the Next Generation

Ron Hanson  Professor Emeritus  University of Nebraska-Lincoln

The Challenge of Keeping a Farm in the Family for Future Generations

An important lesson worth remembering when developing a contingency plan for farm ownership succession is simply that WHAT IF usually happens when you very least expect it to happen. So what happens when “this will never happen to our family farm” suddenly does happen? What might happen next? Farm families often adopt the myth that an unexpected change to the ownership and/or management of their farm will just never happen. Other families make the false assumption that if anything ever does happen, we can certainly discuss any potential conflicts in a reasonable manner while working out a solution that is agreeable to everyone involved. That may or may not happen.

Adopting the premise “our family farming operation has nothing to ever worry about” could spell failure for a farm business due to family member misunderstandings; often resulting in potential conflicts/disputes in the family. A lack of understanding by a farm family to realize the immediate and important need to begin a contingency planning process for farm ownership succession is a perfect recipe for disaster. I have seen too many family farming train wrecks happen simply because the family failed to plan ahead for farm ownership succession. Sadly enough, a family farming legacy might never continue to the next generation.

Common Mistakes of a Family Succession Planning Train Wreck

My observation is that most multi-generation family operations start out with the very best of intentions of keeping their farm for future generations. But hopeful plans often derail. I am often asked why so many families fail to plan ahead for a successful transition of land ownership and management control to insure their farming legacy continues. Why do family succession planning train wrecks happen when attempting to pass on a farm to the next generation? There are seven reasons which identify/explain this failure by families to initiate a successful succession planning process for their farming operations.

1. Succession planning is not an immediate priority. Some farm producers believe that they will farm forever. So what’s the hurry? There is always next year (or the year after) to begin planning.
2. The fear of losing/sharing management control. What if the next generation screws up and loses my farm? Or would even sell my farm? I better stay around and remain in charge to keep control.
3. Everything remains private with lots of secrets. No one needs to know what I have done or what I may plan to do. These are entirely my personal affairs. I am keeping everything strictly to myself.
4. Avoiding potential confrontations with certain family members by never discussing the real issues that exist within the family which might upset or anger someone. Just tip toe around the issue rather than resolving the issue. Much easier to pretend these issues will somehow disappear. But they never do.
5. Reluctant to tackle the difficult decisions that succession planning usually requires. I don’t want to deal with this myself. Once I die, the adult children can figure things out themselves. Just passing on this decision making task to the next generation is never a solution.
6. Goals and expectations are never identified and discussed. Communications between family members have failed due to a lack of respect/trust. Too many misunderstandings can arise which quickly lead to conflicts and possibly even further disputes/legal troubles between family members.
Parents may have certain favorites among their adult children. This favoritism usually causes jealousies between adult family siblings. Now there is sibling bitterness and resentments to deal with.

Strategies for Family Farming Success in the Shark Tank of WHAT IF

Few family operations ever survive an unexpected change to the farm’s organizational ownership structure and/or operational management, let alone a sudden crisis situation within the family. I like to refer to these unexpected changes as a “shark attack.” There are many examples of potential shark attacks to a farm business. These might be an unexpected death, a sudden illness, a farming accident and resulting disability, family disputes both personal and legal, loss of a key farm employee, financial stress, an entire breakdown in family communications, or even a divorce within the family. Unfortunately, farm families are notorious for avoiding the discussion of stressful and emotional issues. Often their reaction is to ignore the real problem cause whenever possible. Most individuals never want to be involved in a family confrontation.

But what if an unexpected change does happen? What happens next? What impacts could result to the farm business and/or to the family? Has any of this even been discussed by the family members? These are pertinent shark tank questions which farm family members must eventually address and then find answers when beginning their contingency planning process for ownership succession to continue their farming legacy for the next generation.

Most farm families realize the importance of implementing a contingency business plan for if and when something unexpected ever happens, but few farm family operations ever follow through and accomplish this management goal. No one ever wants to be in the shark tank and be faced with the difficult and challenging questions that contingency planning for farm ownership succession requires.

Families make the unrealistic assumption that we can always find a way to work through our difficulties when and if something ever happens. Avoiding this discussion now might spell trouble later. I have seen this happen many times with the families I have counseled. Just like a sudden shark attack can happen without warning; unexpected divorces, death, and disputes in a family can have damaging consequences to the farm business without proper planning. Contingency planning helps to prevent a potential family farming business disaster.

My definition of contingency planning is very simple and direct. If an unexpected change happened today to the farm business or to the family, does everyone in the entire family know and understand what happens tomorrow? Who takes over control? How do they take over? Do all family members agree together?

Developing and then implementing a business management plan to overcome unexpected changes to the ownership structure and management leadership is crucial for the continued success of the farm business. This planning process prevents potential misunderstandings between family members and helps to avoid possible family disputes. Can a farm survive an unexpected change (shark attack) to the business and still continue as a profitable farming operation that prospers for future generations?

An effective management strategy is for family members to put themselves in the shark tank and begin addressing the difficult questions and situations that might arise from the uncertainties in farming. Striving to find answers as well as solutions is an effective strategy for success when initiating a business contingency plan in case the unexpected happens to the farm or family or even both at once. That requires a commitment and determination to accomplish this challenging task. A family farming legacy has to be cultivated and nurtured to achieve a successful transition for future younger generations.

When implementing a contingency plan for farm ownership succession, potential disagreements are likely to surface between certain family members. These issues must be discussed by all the family members involved and then resolved to everyone’s agreement. Failure to accomplish this often disrupts the farming operation due to personal conflicts or even legal disputes. Without a well laid out contingency plan, there is too much opportunity for bickering and potential feuding within the family. Thus, putting an end to a farming legacy.
The actual transfer of farm ownership as well as the transition of management control to the next family farming generation is often a journey with many emotional struggles and potential conflicts. Succession planning is especially difficult for older parents simply because it takes them out of their “comfort zone”. Who wants to talk about death? Who wants to admit that someday I will no longer own/manage my farm? Succession planning forces family members to discuss issues they would rather ignore or just pretend will never happen. Remember WHAT IF happens when you might least expect it to happen.

More importantly, succession planning requires farm families to make life changing decisions (putting their farm into a Family Trust or creating a LLC). Bottom line, difficult decisions have to be made and actions must be implemented to accomplish a smooth and successful transition to the next farming generation.

A few words of caution to consider which often have a direct effect on farm succession planning. Greed and entitlement are now issues that impact the family dynamics associated with farm succession planning. Huge increases in farmland values in recent years have generated a tremendous boost in farm asset wealth for farm families. Unfortunately, personal greed has now become a factor in some farm family situations. A generation ago the non-farming adult children who grew up and left the farm took the approach that my brother/sister who stayed can have the farm with all the endless work and little pay. They can have all the debts and risks associated with farming. Now they have taken on a new attitude and outlook. Know what this farm is now worth? Do you realize what we could sell this farm for? How much of the family farm estate am I getting? Why am I not getting more? That attitude quickly complicates succession planning.

Some adult children in the family may already feel that they are entitled. It is important for these adult children to understand that their parents actually owe them nothing. Parents do not owe their children a farm or even an inheritance. That is truly a gift of love and generosity by the parents if they decide to pass on their farm as well as share their farming wealth with their adult children (both farming sons/daughters and non-farming sons/daughters). Adult children must always respect the decisions being made by their parents even if they do not agree with those decisions. This is the parents’ farm estate, not the children’s farm estate. Parents have the right to divide up their estate and share their wealth according to their wishes. Hopefully this will be done in a fair and equitable manner for all the adult children in the family. Thus, all the more reason for parents to develop and then implement a transition plan for farm ownership succession to insure their family farming legacy continues for future generations.

Be careful of the curse of “family wealth”. This is one reason why lawyers become involved in settling the parents’ farm estate. Wealth can eventually destroy family relationships and thus put an end to a family farming legacy. There are too many sad examples of this situation in rural communities. This usually results in family members (especially siblings) no longer speaking to each other as well as carrying with them grudges/bitterness that can last a lifetime. Love can turn into hate between farm family members with family relationships being destroyed. Thus, a regrettable outcome which could have been avoided with planning.

Unfortunately, there are several difficult questions that families must deal with to accomplish a successful farm succession plan. The challenge is whether family members can discuss these issues and resolve potential conflicts without disrupting the farming operation due to personal disputes and/or legal problems. When that happens, very few farming operations survive to the next generation.

Based on my experiences counseling with farm families along with my professional travels speaking to farm groups, I believe there are five potential shark tank questions that may challenge a farm family when working through their farm succession planning process.
These challenges must be addressed by all family members being involved in an open and honest discussion to arrive at appropriate solutions while avoiding family conflicts. The inability by a farm family to work through and resolve these situations will result in a failed attempt to pass on a farm to the next generation; thus putting an end to a family farming legacy and often ruining the dreams/hopes of the younger family farming members.

**Shark Tank Question #1: Who is entitled to someday owning the family farm?** I always ask parents two bottom line questions. Is there someone who you really want to someday have your farm? Is there someone who will never own your farm? This quickly becomes quite emotional. When it comes to money, wealth, property, and especially land ownership, who fits this title of FAMILY? Is it just blood related family members who will end up with the farm? What about the in-laws involved in the family or even employed by the farming operation? Could they eventually have a share of ownership of this FAMILY farm?

**Shark Tank Question #2: Are the parents willing to treat all of their adult children fairly and equitably in their estate?** Favoritism among adult children quickly causes sibling jealousies. This results in grudges and resentments which often destroy family relationships. Parents love their children. That is never the issue. The issue is simply fairness. That is the challenge that parents must address for their adult children. Family farming operations are the most difficult to handle in terms of fairness since some children worked harder and some children actually care more than others; while some just see the money and what they might inherit from their parents’ final estate. Parents have the difficult task of sorting all of this out when searching for fairness.

**Shark Tank Question #3: When will this transfer of farm ownership and sharing of management actually happen?** Parents have worked extremely hard and personally sacrificed for the success of their farm. They have overcome many financial struggles to accomplish their farming dreams. Consequently, parents often retain total ownership (as well as keep complete control) until retirement or even until their death. Thus, the reason parents are reluctant to plan. Keeping absolute control can be extremely powerful, especially when you still have total ownership. But that can be a mistake to the succession planning process.

**Shark Tank Question #4: What is sweat equity worth when determining a fair selling price for a family farm to settle a farm estate?** This is a critical question for the adult farming children who returned back home and worked for little wages to help parents expand their farming operation. Often a large part of their parents’ final farm estate they made possible with this sacrifice. Do the other non-farming children realize this contribution of sweat equity by the adult farming children? Without this input of sweat equity by certain family members, the farm may not have prospered. If the adult farming child must someday buy out the other siblings to keep the farm together as one unit, or even buy out the parents so Mom and Dad have an income stream for their retirement, what is a fair selling price when a farm must be sold within the family?

**Shark Tank Question #5: Are family members able to work together and agree upon a succession plan for the future of their farm?** If family members fail to reach agreement with each other and are unable to work through this succession process together, nothing will ever happen. No farm ownership succession plan will ever be put in place. Bickering and fighting can become a road block to any planning process.

**The key to finding answers to these questions is whether a family has a vision for the future of their farm and a commitment to continue their family farming legacy for future generations.** This vision becomes the blueprint for developing and implementing a successful succession plan and provides family members with the guidelines necessary to accomplish their planning goals. Without this agreed upon vision, it is difficult for farm families to build cooperation throughout the planning process. **A strategy for success is to strive for harmony and to create unity between family members through this process.**

Family members must find a way to communicate their expectations with others. Remember that openness and honesty build trust and respect in a family. Secrets only cause conflict and quickly destroy family relationships.
Never underestimate the power of effective communications when continuing a family farming legacy for the next generation and building stronger family relationships for the future.

Some helpful hints for more productive family meeting sessions.  (1) The very first meeting session with parents and their adult children to discuss ownership succession should be only for the purpose of input sharing.  No decisions are to be made or proposed. That can be accomplished at later meetings.  (2) Allow each family member adequate time to speak and contribute to the conversation. Important that all family voices are continually being heard.  (3) Only constructive and positive comments are permitted.  No one is allowed to criticize the comments by others.  (4) End each meeting by setting a date for the next meeting.  Keep the planning process moving forward with momentum and a commitment to achieve final results.

Mapping Out a Plan to Keep a Farm in the Family for Future Generations

Although the initial task of developing and then implementing a business management succession plan to transfer farm ownership as well as management control from one generation to the next may seem overwhelming, farm families must adopt a step by step planning process to insure the continued success of their family farming operation.  These specific planning guidelines require family members to communicate with each other and to keep everyone involved in the discussion process. That approach avoids misunderstandings as well as potential family conflicts during this planning process.

Parents typically have many questions along with concerns regarding succession planning for their farm.  During my extended years of working and counseling with farm families, the following comments were often shared with me.  How do I even begin?  Where do I start in the planning process?  Can I be fair to all my adult children?  Can my wishes actually be accomplished with planning?  I never want my children to fight over my estate and money; is that really possible?  Who carries out our estate plans after our death?

I recommend farm families consider adopting five guideline planning steps to accomplish this task with success.  These guidelines keep family members focused on achieving their ultimate goal: keeping their farm in the family for future generations.  These steps provide families with a planning framework that can be used as a management tool to transfer ownership and management control of their farm to the next generation.

Guideline Step #1: Identifying and Adopting a Farming Legacy Vision for the Future.  The parents themselves are the actual starting point.  This is their farm, their estate, and their family.  I always ask parents this question.  You worked and struggled your entire life to build this farming operation and to raise your family.  Now what are you planning to do with this?  Do nothing; and let your adult children fight about it later?  What will that accomplish except resentment and bitterness which often divides a family?

Parents must begin by discussing their own personal expectations with each other.  What is the ultimate goal they wish to accomplish?  Keeping their farm in the family for the next generation(their adult children)?  Or even future generations (their grandchildren who someday may want to farm)?

Bottom line, parents must identify a VISION for the future of their farm and their family farming legacy.  Parents must then share their planning intentions with their adult children (especially those who returned back to the family farm).  This requires a commitment by parents to initiate a family discussion process to begin formulating a plan that protects and preserves their family farming legacy into the future.

Too often succession planning efforts fail simply because Mom and Dad cannot agree and are unable to work together to achieve their goals.  Some parents pretend there are no family issues to worry about and thus there is no need for succession planning.  Or worse yet, parents have the attitude that after we die, the children can figure
things out for themselves. When any of this happens; no plans will ever be put in place and carried out. That approach is often a fatal mistake leading to family disputes; thus ending a family farming tradition.

Guideline Step #2: Drafting Ideas into a Plan. The next step requires the entire family to meet together and to begin discussing their ideas/concerns with each other. Mom and Dad must take this opportunity to share and explain their VISION (accomplished in Step #1) with their adult children. Each family member must now put their feelings/hopes/dreams into words. Begin drafting these ideas into words and start writing down these thoughts on paper. Draft out a mission statement for passing on the farm.

Most importantly, family members must express their expectations with each other. That requires individuals to openly share feelings and concerns during the discussion planning process. No matter how simple or brief, the objective is to get something in writing. Once a planning document is drafted, it can always be revised/updated/expanded. But you have to have something to start with. With nothing in writing, how can a succession plan ever be accomplished? Verbal plans usually never materialize. There is a lot of talking but never any documented results to show for it. This happens too often.

Guideline Step #3: Organizing Planning Resources. Now for the most important step in farm ownership succession planning. The family must put together a management succession team to guide them through this planning process in order to accomplish their planning goals for the next generation. Farm families will need to have the following four representatives as members of their succession planning team:

1. **Accountant or CPA.** There will be many income tax questions regarding capital gains and estate tax issues when passing on the farm business between generations.
2. **Farm Loan Officer.** There needs to be a financial plan in place for the next younger generation to take over the farming operation and to be financially successful.
3. **Estate Planning/Farm Business Management Specialist.** Parents need an EXIT plan for leaving the farm with the assurance they will have a secure financial retirement with no worries in their later years of life. Parents never want to be a financial burden but worry who will take care of me if I ever need that help.
4. **Attorney.** A lawyer will eventually be required to draw up the necessary legal documents and agreements for keeping the farm in the family and to avoid any family disputes or legal problems later.

These four representatives have the expertise and a wealth of experience to assist family members in developing and implementing their farm succession plan for the next generation. They can answer the questions and point out various options to consider before any decisions are finalized. **Do your homework before each meeting.** Have a list of prepared questions for which you need answers. Never ask what would do in our family farming situation. Always make it YOUR succession plan with your wishes for a successful transition. Never let someone impose THEIR plan which you might most often later regret.

This, however, will require a major commitment of time with many appointments and family meetings; not to mention the expense when working with these planning experts. Remember that the benefits as well as the peace of mind for reaching closure to the succession planning process far outweigh the time commitment involved as well as the costs/fees that will be incurred. Continuing a family farming legacy to preserve a farming heritage by keeping the farm in the family for future generations is priceless.

Guideline Step #4: Clarifying Family Member Assumptions. The adult farming children must visit directly with the non-farming adult children to learn and understand their feelings. Never assume that because I returned back home to the family farm to help Dad, I already deserve having the farm (whether gifted to me or sold to me at a below market price). The other siblings may have another point of view as to what is fair. Do these other non-farming children understand and appreciate the contribution of sweat equity by the farming children to keep the farm profitable and successful? Any existing jealousies as well as resentments must be resolved and feasible solutions found. When I hear the words “we’ll see about this” by a family member, I know it is already too late to
help. Because those are fighting words; not words of compromise and reconciliation. When family members want to fight with each other; be prepared for the worst outcome.

**Guideline Step #5: Take Control and Set Deadlines.** The critical strategy for planning success is simply taking action and get the planning process started. Arrange for that first farm family meeting to kick off a discussion and planning process. Make that first appointment to begin asking questions and finding answers.

Break down the overall planning process into identifiable stages and set deadlines to accomplish each specific purpose. Goals without deadlines are nothing more that dreams. That is exactly why many planning goals by farm families never become a reality. They never had a deadline or priority to get their plans accomplished. Some families spend their time talking about succession planning; but results never happen.

As a farm family begins developing a contingency plan for their business, I always suggest four questions to include on their contingency planning CHECKLIST for a successful transition.

1. Are all farm business and financial documents current and complete?
2. Are these farm documents accessible to other family members if ever needed?
3. Are necessary Power of Attorney documents in order if the parents are unable to manage the farm business and/or no longer able to take care of themselves?
4. Has the farm’s contingency plan for ownership succession been communicated with everyone in the family (both farming and non-farming family members)?

As parents begin to approach the later years of their life, they need to begin thinking about an EXIT plan for their retirement and how they can best phase out of the farm’s daily operations. That strategy will insure a more successful transitioning process to the next generation. Once this transition has been completed, the younger generation must find ways to still keep the older generation involved and connected. Parents often fear being forgotten as well as taken for granted once the next generation takes over their farm.

**Transition Planning Strategies to Insure Family Succession Success:** (1) Start talking now and begin a family discussion process to identify succession goals to achieve and then determine guidelines necessary for a successful planning process. (2) Put business agreements and planning decisions in writing to avoid misunderstandings and promote agreement. (3) Keep everyone informed and involved at each step of the planning process. Remember all family member voices must be heard and respected. (4) Expect the unexpected WHAT IF. Be prepared with a contingency plan when unexpected changes happen. (5) Time alone very seldom solves problems. If family issues exist, deal with it now and begin searching for solutions to resolve potential conflict as well as to avoid possible family disputes and legal issues.

**Family Member Succession Planning Considerations:** (1) Family members must be willing to write down and share their goals, expectations, personal wishes as well as their fears for the ownership succession of their family farm. (2) Family operations must be persistent. Family members must determine deadlines and then follow through to be sure planning goals are being accomplished. (3) Family members must have the courage to begin asking each other the difficult Shark Tank questions that are often ignored. Most families avoid personal confrontations rather than tackle the difficult issues that eventually must be resolved. (4) Make a priority list of important decisions/planning actions to implement and a time schedule to monitor their progress toward completion. (5) Develop a Memorandum of Family Understanding that provides a focus on the family core values that need to be preserved throughout the succession planning process. This encourages family members to strive for harmony and unity to preserve their farming legacy and heritage for future family generations. This provides a platform that strong family relationships are important and priceless.

**AN IMPORTANT WORD OF ADVICE:** Always follow through and make sure everything has been completed and documented as planned. Make sure you are asking the right questions and, most importantly, getting the right answers in return. “We’ll talk about this later” “Everything is taken care of,
you have nothing to worry about” are not acceptable responses. Those are just excuses (often used by the older generation) as well as a way to avoid further discussion (especially with the younger generation). So be persistent and be firm. Get to the bottom line of what has actually been done (if anything) for passing on the farm. If and when something happens to the farm and/or farm family, what now happens to me? What is my actual future as part of this family farming legacy? These questions and concerns deserve appropriate answers to accomplish a successful succession planning process.

BUILDING STRONGER FAMILY RELATIONSHIPS: As farm family members work together to develop/implement a transition plan for keeping their farm in the family for future generations, the most important objective should be directed at striving for family harmony and building family unity during this planning process. Never forget to celebrate as a family the success of continuing a family farming legacy for the next generation. Family members deserve to be proud of their family farming heritage and accomplishments. Keeping family members on their farm for future generations is priceless. Once a family farming legacy ends, you very seldom get a second chance to start over.

It takes a determined commitment by each and every member of the family to continue a farming legacy. That requires family members to communicate together, to work together, and to plan together to accomplish this challenging task of keeping their farm in the family for future generations. Easier said than done; but farm succession planning is a journey with high rewards and lasting family values once completed. Keep in mind that a farming legacy must be cultivated to reach this level of success.

SUMMARY AND FINAL COMMENTS: Most farm families will find transition planning for farm ownership succession to be a very time consuming and emotionally draining process. There are no short cuts or easy answers or even quick fix solutions to farm ownership succession planning for the next generation which will continue a family farming legacy. Decision making becomes complicated especially with the various tax management implications as well as family member dynamics and potential issues involved.

Can farm family members put themselves in the shark tank and begin asking each other the difficult questions that transition planning requires to keep their farm in the family for the next younger generation? Can these family members communicate and work together to find a winning strategy to accomplish a successful transition? The underlying goal must be directed at cultivating a planning process that promotes the continued success of a family farming legacy for future generations.

Always remember that it is never too early for a family to begin this transition planning process for farm ownership succession and the transfer of management control to the next generation. Just do not make the mistake of waiting until it is actually too late and now nothing can be done to implement needed plans to preserve a family farming legacy and heritage. Most regrettably, that common mistake happens all too often.

During stressful farming situations or when faced with a family emergency crisis are never the best time to make good objective business management decisions for the farming operation. Some individuals do not behave rationally under pressure. Now emotions and personal stress take over in the decision making process rather than practical judgement. But that frequently happens without proper planning. This risks the farm being sold or even divided to settle personal disputes between family members. Worse yet, lawyers might now become involved in the situation since communications within the family have entirely ceased. Tensions between family members frequently result in heated exchanges. Can a farming operation afford the cost of a legal battle between family members to resolve these disputes? Can the farm business operation itself be disrupted and still survive while remaining profitable? Many times not.

The strategy for success is for farm family members to start communicating together as a family and to adopt a step by step transition planning process which keeps their farm in the family! The solution is for a
farm family to start their planning process now (NEVER LATER) and to begin searching for needed answers to their particular situation. So don’t wait. Farm families must prepare for the unexpected changes to their business operations and have a contingency planning strategy ready to implement as needed if and when unexpected changes/events ever happen. The unexpected does HAPPEN in life’s journey on a family farm! Mark my words. I have witnessed the family farming situations and been told the stories/experiences by family members during my years of family counseling to prove it.