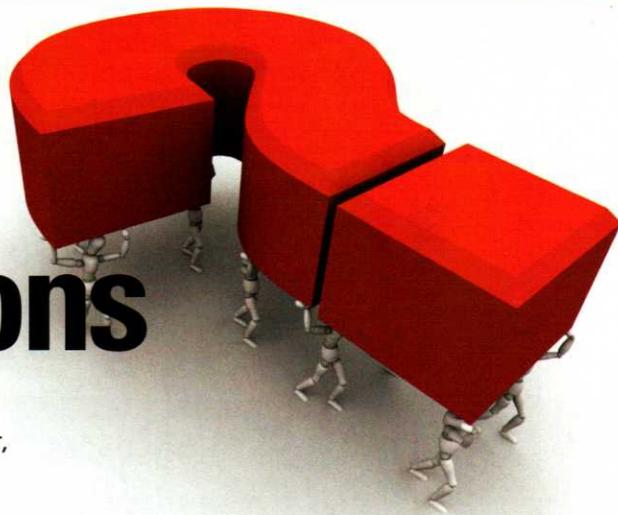


Tough questions



Here are some of the sticky issues to consider, for family both on and off the farm

For many producers, concerns about passing on the family farm usually focus on how to avoid estate taxes or treat everyone equally.

But much more is at stake, according to family farm consultant Dick Wittman. Instead of just deciding who will inherit the assets of the operation, it's crucial to consider how the successors will manage the operation — and whether they have the necessary skills and tools to succeed.

“Done wrong, succession planning could be the ultimate family business sin,” says Wittman, who also runs a diversified family farming operation in Cul de Sac, Idaho.

To guard against mishaps, Wittman recommends a review of some basic issues that can thwart family harmony and a smooth transition. Here are questions to ask:

Has your farm business clearly defined its mission, vision and core values?

● If so, are prospective candidates for management succession compatible with current members of the family operation? Can they build upon these core foundations?

Only a third of top farm managers have these core guidance issues defined and documented. Decisions are made to bring the next generation on board when potential successor candidates' philosophies are not compatible with the current business members' core values.

Business owners often assume “they're family, and they will come around in time.” Ignoring this issue is a recipe for disaster; it's better to

face up to incompatibility up front and cause a little bit of disappointment rather than turn a blind eye and have an implosion a few years down the road that results in both business failure and destruction of family relationships.

Do successors understand the difference between being an investor versus providing labor or management?

● These are two completely different tracks. Some successors are cut out to be investor-owners; some are cut out to manage farms; and some are cut out to do both.

Don't just assume you know which is best for your heirs or what they desire. Having a candid discussion about goals and aspirations is critical before potential farm successors cast their lots with the family business, not after they become involved in the business.

Do potential management successors have the knowledge, skills and abilities to run the farm business?

● Managing a family farm business today requires diverse skills in production, marketing, financial and personnel management. Just enjoying working with livestock or having a love for growing things is not enough. Clearly defining job descriptions lets heirs know what they're in for.

Do successors understand the profitability of the farm business?

● Successors must be prepared to function as investors, while those

providing labor and management must have realistic expectations for compensation.

This requires fully disclosing the financial performance of the business. This can be a sticky wicket, indeed — barely half of our top farmers even share records among their active owners and managers! Potential heirs may not be happy with the 4% farms historically have returned.

Moreover, policies should be in place to ensure all business relationships are on an “arms-length” basis. That is, successors who provide capital or labor to the business should not receive preferential treatment. Many good-faith succession plans get sabotaged when rental arrangements don't reflect fair market rates, or when managers and owners receive compensation that's out of line with their true contribution to the business.

Is your farm positioned for sustainable growth?

● Many farmers want to pass on the farm, but they stopped growing and innovating years ago. Their equipment is worn out; the farm size is too small to maximize labor and equipment efficiencies; and cost of production is excessive compared to competitors. Without significant growth and/or strategic overhaul of the business, the best succession plan for these farms may involve passing the ownership of the business to heirs to manage as off-farm investors. **ff**

Wittman is a Farm Futures contributing editor and author of “Building Effective Farm Management Systems.” For more information, see www.wittmanconsulting.com.