

How do you select a successor for your ag legacy?

Sandra had seen it coming; she wasn't sure how to begin the conversation. Jeff had seemed more distant lately, not as interested in the farm as he had been, and it surprised her. She had always thought that this was what they would do until they couldn't anymore. She wasn't sure what it meant. While she did not question Jeff's commitment to the farm he had spent his entire life on, she did feel that there had been a shift.

In a recent conversation with her daughter, Shannon had confided in her mother the same observations. They agreed that his deep-sea fishing trips were a little longer last year and just last week he made a suggestion that maybe Teddy should take the cows to the sale barn. Teddy was caught off guard, as his father had never allowed anyone else to take cows to the sale barn. Teddy was more than just a little nervous that he might do something wrong.

Last night at dinner Sandra confronted Jeff about her concerns. After a long silence, Jeff, with tears in his eyes, admitted to feeling adrift and less engaged. Fearful of losing his identity as a farmer, he was unsure about stepping back. He shared that it scared him because he had always planned to hang in there, right up to the end. After hugging him, assuring him that she still loved him and that he could step back, she said it might be time to begin the conversation about the future of the farm and their own future as well.



How should Jeff and Sandra begin the conversation and process of selecting a successor? Can Jeff ever feel confident in stepping away, confident that the farm will be taken care of?

Selecting a successor

Selecting the right successor to take over management of the family farm or ranch is an important component of the transition process. Rather than a decision, it should be looked at as a process; both selection and preparation of the candidate. Equally important is the preparation of the founding generation, as they will also face a transition; one that may cause them to question their very identity.

Wesley Tucker, a University of Missouri Farm Succession Specialist, suggests that the succession process should help gradually accomplish two, distinct goals:

1. Ready the farm's next generation to take over farm management and ownership
2. Prepare the senior operators to transition to different on- or off-farm roles.

The emphasis on gradual is important, as succession is a process. There are several important steps that must be taken to prepare both the incoming and founding generations for the transfer.

It is important that the incoming generation not be made to feel that they must take on the management of the family operation. Through the process of selection and preparation, they may find that they are uncomfortable with that role. The family should approach transition planning with an understanding attitude and willingness to accept that not everyone will be interested in the roles and responsibilities the founders may have had in mind for many years.

Communication and planning

Experts suggest that the founding generation should not be solely responsible for selecting their successor. Although we would note that it is their right as owners of the operation. Seeking input from on- and off-farm individuals, as well as other families can help identify who is the right individual(s) for the job. Good communication with all interested parties is important not only in beginning the conversations but also in planning for the future of the operation.

To begin the process of evaluating these goals, consider the following questions taken from the Farm Commons website:

1. What do you want to happen to the farm property in the future?
2. Is maintaining ownership of the land by your family members a priority?
3. Does it matter that the land be operated in a particular way?

There certainly may be additional questions specific to your operation and family. Be sure to address those in the conversation as well.

Once the family has clarified their vision for what they want the operation to achieve, these become the goals for the operation. It is important to take the time to identify objectives to help achieve the identified goals. The selection of the most appropriate successor should in part be based on who will be best able to help achieve these objectives and the goals for the operation.

For more information on improving communication and holding family meetings, see the Ag Legacy Newsletter titled “How are you communicating with the next generation?”

Goals vs. Objectives

Goals and objectives are often used synonymously but they are different.

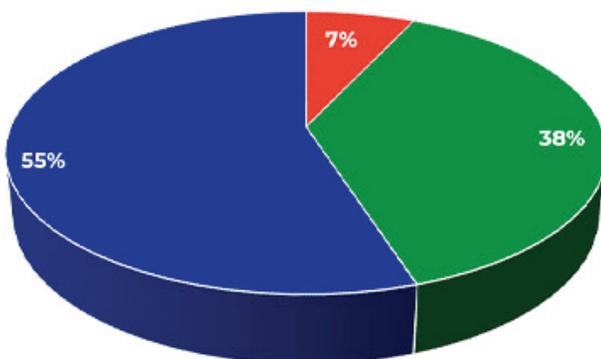
Goals are long-term aspirations that are loftier and less concrete.

Objectives are more specific benchmarks that can be achieved by following certain steps.

Setting goals is like deciding on the ultimate destination. By identifying objectives, you carve a clear path to get there.

Farm Commons

Key Element of Successful Communication



www.flickr.com

■ Words you use ■ Your tone of voice ■ Your body language

A five-step program

It is important to form a group that can evaluate the farm or ranch operation and potential candidates, if the successor is not obvious. This group should consist of the founding generation, members of the incoming generation that are working on the operation, and others who have a vested interest in the future of the operation. Once a successor has been identified, this five-step program can help formalize and organize the process (Geist, 2020):

1. **Off farm experience:** Encourage the successor to gain experience and education off-farm. Expose the person to other farms or businesses and memberships in professional groups. A successor who gains broad off-farm experience is more prepared to manage the family farm.
2. **Have a trial work period:** Complete an honest evaluation of all parties. During the evaluation, the senior

operator should assess a successor's fitness to run the farm. A successor should reflect on whether the senior generation respects the next generation and appears committed to transferring control when the succession process ends. Keep family and business relationships separate; flesh and blood does not guarantee success.

3. Begin the path to management and ownership early: Those who come back to the farm should not sign up for a lifetime of servitude without clear expectations of future rewards. At this phase, designate a farm enterprise or function that the farm successor(s) will manage. Give successors the responsibility and authority to make at least some decisions for the assigned enterprise or business function. Many successors report they learn more and feel more empowered if they have an opportunity to make decisions.

4. Involve the next generation in financial decision-making: Finances are usually the last part of the business transferred and often do not happen until the day after the funeral, when the checkbook is opened for the first time. Farm succession has the potential to fail at this stage if the successors do not assume complete control of a business enterprise or function. Often, senior farm operators hesitate to allow their successors to manage the finances. The successor(s) must develop an aptitude for managing costs, returns and investments for the farm to have long-term financial viability. The succession process must provide those types of skill-building opportunities for successors.

5. Plan for the next generation to become the majority owner and manager: The outgoing family members must pass the reins to the next generation and actively work to bring in the next generation. By holding a majority stake, successors make most of the business decisions.

The right successor doesn't need to have all the right skills and experience initially. The founding generation had to grow into their position after all. With a process in place to prepare the successor(s) for the transition, the successor gains a better understanding of what it takes and has the opportunity to gain important skills. Remember, this process if completed correctly, can take years to complete. The transfer of management should be accomplished, while also transferring an appropriate share of asset ownership along the way.

Planning for the founding generation

Many family businesses overlook the importance of appointing a successor. This is even more prevalent among farm and ranch families that often neglect discussing the role of the founding generation during the transfer process. A successful transfer means that the successor at some point takes over management and decision-making for the operation; where does that leave the founding generation?

The founding generation must decide if they want to remain involved in the operation or if they desire more time to travel, relax, take up a new hobby, start a business, or something else. If the answer is more time, then a more traditional retirement strategy might include a process where they gradually step away from the operation. If the founding generation desires to remain a part of the operation, then this should be worked out as a feature of the transfer process. What this will look like should be planned and described in detail, along with the other aspects of the process.

Mentoring

One of the main challenges of taking over management of the operation is the loss of key knowledge and experience. The founding generation has much wisdom to share and could consider remaining involved through a mentoring relationship with the successor.

Stepping back while still involved in the operation can be challenging. Other persons on the farm or ranch will still look to the founding generation as the decision maker. The successor may rely too heavily on the founding generation, rather than making their own decisions. Clear lines should be established to support the authority of the successor. This may mean that the exiting members show up after daily planning meetings, for example (Tucker et al, 2020).

Tucker recommends looking at the operation as a team



competition. Where the founding generation will not call all the shots or participate as the star player but makes meaningful contributions as a mentor who can offer advice. A successful mentor is also able to act as a sounding board and provides feedback, while being aware of the right questions to ask. In addition, they can balance sharing experiences and suggestions while allowing for active learning by the mentee. For more information on developing a mentoring relationship see the Ag Legacy Newsletter titled “How are you mentoring the next generation?”

The successful transfer of management skills for the family farm or ranch will look different for each family. Keep in mind that it is a process, the successful completion of which takes time, patience, communication, and follow through. If your family has not begun the process, start by beginning the conversation. Use the questions suggested and the five-step process to get started down the path toward selecting a successor to build a successful Ag legacy.

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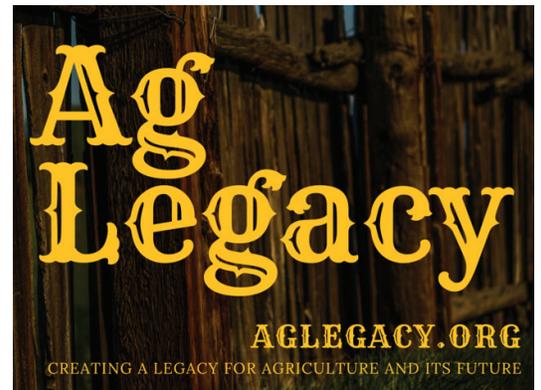


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