CONTROL VS TRANSFER
EMOTIONS OF TRANSFERRING THE FARM BUSINESS

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TOPICS

• Are we retiring? When? Why don’t we plan?
• Family communications
• Emotions vs. logic vs. control
• Establishing mission, vision, and values
• Standard operating procedures and job descriptions
• Summarize
WHEN ARE WE PLANNING TO RETIRE?

20% within the next 15 years
15% later than 15 years

9% Say that they never plan to retire (maintain full control)
24% Say they plan to semi-retire (giving up some control)
21% Say they are already semi-retired (gave up some control)

So – 54% are not planning to fully retire from farming!

Nebraska survey completed in fall 2017
WHY ARE FARMERS RETIRING AT A LATER AGE – OR ONLY SEMI-RETIRING?

Percent of those responding either important or very important
75% Have a difficult time giving up control of farm
69% Modern equipment – allows them to farm longer
66% Relate retirement to their own mortality
62% Cannot afford to retire
60% Healthier longer/longer life
55% Don’t have a successor
54% Don’t know what else they’d do

Online survey, fall 2017

ESTATE PLANNING

• “..many farm families experience significant difficulty in discussing the future of the family farm. More often than not, planning... tends to be deferred until some critical life event occurs which forces the family to address the matter.” Kaine, et al, Succession and Inheritance on Australian Family Farms, TRDC Pub. #198, The Rural Development Centre, U. of New England, Armidale, NSW
COMMENTS FROM SUCCESSION PLANNING WORKSHOPS

“I wished we would have heard this talk 10-15 years ago!”

“If we would have started sooner, we would have so many more options available to us.”

WHY DON’T WE PLAN?

- Too Complicated (we assume)
- Don’t like to Plan
  - It is mental “work”
- Facing our own Mortality
  - Some just don’t want to think about death
- We are afraid that if we do something, it will be wrong (in the future)
1. I should have a plan

2. I go to a meeting, or meet W/ a lawyer

3. Wow! This is hard, complicated, I have a headache

4. NO action taken at this time

**Circle of Inaction**

**IDEAL PLANNING - SEQUENTIAL**

- I should have a plan or there is a catastrophic event
- I go to a meeting and/or meet with a lawyer
- Family meets to explore options
- Options picked
- Succession plan developed/signed – Congratulations!
WILL THE EMOTIONS GET IN THE WAY OF THE BUSINESS?

- We are all taught: “Farming/Ranching is a way of life.”
- However, it is still a functioning business, you have to make a living.
- Considering that balance of “life” with the “business” has to be considered.
- Emotional responses have to be balanced with the logical response – that is the trick.
  - “Trying to subordinate our feelings to logic is a futile effort and a waste of a valuable resource—one that we’ve evolved over millions of years.” Mark Luckens; How Leaders can Balance Logic and Emotion to make Better Decisions

MORE ON EMOTIONS VS. LOGIC

- Emotions exist for a reason
- To close off emotions is to close off our own potential
- However, you don’t give up on rationality and manage by whim
- The main way to work between emotion and logic is to employ EMPATHY for others
  - Empathy recognizes feelings
  - Demonstrated understanding of the feelings creates a bond
  - That bond should allow us to rationally move ahead
NEGOTIATION AND THE FAMILY

Try working on these areas to defuse emotions within negotiations

Appreciation
All people want is to be appreciated (are they being listened to?)

Affiliation
Are parties being treated as an adversary – or as colleagues (family)?

Autonomy
Are you free to make the decisions, or are you being blocked?

Status
Are you being treated as inferior, or given full recognition?

Role
Are you fulfilled with the role that you have?

CONTROL IS THE OTHER ISSUE

- Older generation (in some cases) will not want to give up control
  - For some, they just got control, so they want to manage for a while yet
  - Recognize that this is what they were taught
  - Were the children raised to be followers?
  - Is it everyone’s dream that the family farms together?
GETTING PAST CONTROL ISSUES

Get all to understand that the next generation needs experience

- No way to get that without some control
- The only way to get experience is by making mistakes!

Strategies:

- Start talking now
- Put things in writing
- Keep everyone informed
- Expect the unexpected
- Time very seldom solves problem
- Deal with issues now

USING FAMILY COMMUNICATIONS FOR ISSUES

In order to resolve issues, how often do you spend time thinking, meeting and discussing with family members?

- Never (30%)
- Hardly ever (30%)
- Some of the time (30%)
- Most of the time (10%)

Purdue survey, summer 2019
COMMUNICATE!

- Most families are OK – however when there are problems – the majority is from lack of appropriate communications
- One effective way to start – is to start talking – to your children/or to your parents
- Consider a family meeting!

FAMILY MEETINGS

Plan carefully to avoid disaster

Who to invite?
Meeting to let all have input

Set clear ground rules: 1) No criticizing ideas, 2) Institute ‘gag’ rule if needed
COMMUNICATE

• One meeting to get input – then use Golden Rule

• Share with non-local family

• Surprises cause problems – sweetheart deals

• Younger generations require better communications than what we’ve received

COMMUNICATE

• Listening is the key!

• (Practice) Make partner repeat what they thought you said – to be sure that they heard you, or that you said what you wanted to

• Make sure that you understand the other person’s point of view *(seek first to understand, then to be understood)*
PHASES OF TRANSFER TO NEXT GENERATION

1. Testing (will the next generation do “all” tasks?)
2. Management Transfer (planned with timing)
3. Asset or Enterprise Transfer (livestock or machinery)
4. Whole Farm/Business (farmland) Transfer

**Do all with written plans (business plan)**
- Have a management structure
- Include exit plans
- Use job descriptions

TESTING

- Will the successors be willing to do all the tasks?
  - Hours?
  - Weekends?
  - Storms?
  - Will those arrangements be OK with the spouse?
- Will we meet expectation of the boomer, yet satisfy the millennial?
- Consider writing job descriptions – for all (including older generation)
  - Each person has specific responsibilities
  - Include clause that says that you help all operations as needed
MANAGEMENT TRANSFER

Next generation is assigned a piece of the operation to manage
• Crop acres (example) – take care of:
  • seed selection, seeding rate
  • Fertilizer, weed control, disease control
  • Marketing
  • All operations
• Livestock (example)
  • Take care of section of grass
    • Weed control
    • Stocking rate, breeding program (dates)
    • Check livestock, check water (how often)

ASSET OR ENTERPRISE TRANSFER

• For machinery transfer, consider the gifting exemption each year
  • $15K limit for each gift, up to $60 K between two couples

• For livestock transfer (cattle), compensation for helping with calving is “x” percent of the calf crop
FOR FARM ASSET (FARMLAND) TRANSFER

- Usually occurs at death/demise – why to avoid capital gains
- If land is sold by current owner, capital gains is a likely issue
  - Example – land worth $1000 per acre when purchased
    - Now worth $4000 per acre
    - Capital gains is $3000 per acre ($4,000 less basis of $1,000)
    - Tax bracket 25% (example) – then tax is $750 per acre
      - ($3,000 times 25% = $750)
- Includes wills, trusts, LLC, s-corps
- Exception C-corps
- Transfer from husband to wife at one death, is not considered here

USE OF A WRITTEN BUSINESS PLAN

Recommended
- Start with mission, vision, and values
- Then add goals
- Standard operating procedures
- Organizational chart
- Job descriptions
MISSION STATEMENT

Your farm’s mission and vision statements help guide your business. They help you communicate with customers and suppliers; they help guide your decisions about marketing strategies and enterprises.

A mission statement is a set of guiding principles, including your values, that describe why and how you farm.

Example:

We believe that our primary responsibility is to produce healthy, life-giving food. We are also committed to making a strong contribution to an improved environment and giving back to our community.

VISION STATEMENT

What does your farm/ranch do?
How do you do that?
Why do you do that?

Example:

To produce high quality milk in a safe and enjoyable work environment.
VALUE STATEMENTS

Core principles that you work by

Example:

Our Values are:

**Safety** – It’s our first priority
**Excellence** – It’s our passion
**Integrity** – We do the right thing
**Community** – We care about our people & our environment
**Team** – We work together, never apart
**Respect** – We value all of our relationships

GOALS

- Mission/vision are broad and far-reaching
- Goals are the road map to get you to the vision
- Goals are broader and will often include objectives
- Goals are challenging but not unreasonable
- Owners and employees accept goals with a true sense of ownership
OBJECTIVES TO REACH GOALS

Write SMART objectives
- Simple
- Measurable
- Achievable
- Relevant
- Time bound – have deadline

ORGANIZATIONAL CHART

CEO - managing partner
- CFO
  - Lead for crops
  - Lead for livestock
  - Lead for Machinery
JOB DESCRIPTIONS

Includes:
• Job summary
• Responsibilities
• Qualifications and skills required

SUMMARY – CONTROL VS TRANSFER

• Good family communications will be the KEY
  • There is no substitute
• Recognize the emotions and embrace them
• Realize and appreciate the need for control
• Think about appreciation, affiliation, autonomy, status, and role
  • Focus on appreciation – and good communications
• Utilize the components of the business plan that you can
  • Mission, vision, values, goals, etc……..
WEBSITES TO GET MORE INFORMATION

http://agecon.unl.edu/succession

https://farmerandrancher.org/articles/
   Articles written by Joe Hawbaker – attorney, Omaha

https://www.extension.iastate.edu/bfc/
   Iowa State’s beginning farmer center

http://agrilegacy.com/blog/
   Blog posts from Agri legacy

https://ag.purdue.edu/programs/areyouprepared/readyestate/
   Pages/default.aspx
   Purdue University’s estate planning information

NEBRASKA RESOURCES

Nebraska Rural Response Hotline
   800-464-0258
   Call to make appointment – or get questions answered
   Monthly clinics across the state

Beginning Farmer Information (NextGen) – Nebraska Department of Agriculture
   402-471-4876
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Entire succession talk from Allan at this website