

## THE ROLE OF AGRICULTURE IN THE RURAL ECONOMY CHALLENGES FACING AGRICULTURE TODAY

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### **Abstract**

*The issues of farmland acquisition, tenure and succession are of great importance for agricultural families, their successors and the rural communities in which they live. As the age of farm/ranch operators increases, we see agricultural assets held in fewer and older hands. In the next 20 years, a majority of farm businesses will change hands. The transfer of a farm business requires assets, income and management be transferred to the successor generation. Methods of transferring assets and income are well documented. The process for transferring management is however more problematic. Recent research has shown this is to be an international issue. The authors will survey available educational material and teaching methods to select the best curriculum and practices to facilitate the transfer of management from the owner generation to the successor generation. Further, the authors will illustrate the teaching of the materials through a demonstration of the best practices.*

*Keywords: Succession, transfer, management, curriculum, practices, ageing*

### **Introduction**

The transfer of a farm family business from the owner generation to the successor generation requires the assets, income and management be systematically transferred to the successor. Methods and process of transferring assets and income are well documented. The methods and processes of transfer from the owner generation to the successor generation is less well understood and documented. Current research conducted under the Farmtransfers international research project has shown that this is international issue. (Baker 2007)

**Table 1: Rank order of managerial authority retained by the owner/operator generation**

Decision	Iowa 2006	Australia 2004	Virginia 2001	Japan 2001	Ontario 1997	Quebec 1997	England 1997
Decides when to pay bills	1	1	1	2	1	1	1
Identify sources & negotiate loans & finances	2	2	2	1	2	2	2
Negotiate sales of crops/ livestock	3	7=	4	6=	3	3	3
Decide when to sell crops/ livestock	4	6	5=	6=	4	5	4
Level of inputs used	5	8	3	5	11	6	13
Decide & plan capital projects	6	4	7	9	5	8	5
Negotiate purchase of machines & equipment	7	5	8	12	6	9	8
Plan day-to-day work	8	9	12	3	12	11	9
Decide work method/way jobs are done	9	12	13	10	13	13	12
Decide long term balance & type of enterprises	10=	3	5=	11	7	10	6
Decide timing of operations activities	10=	10	10=	8	9	7	10
Decide type & make of machines and equipment	10=	11	10=	13	10	12	11
Make annual crop/livestock plans	11	7=	9	4	8	4	7

The identification of a successor, retirement and the transfer of managerial authority are related. Recent research conducted in Iowa demonstrated that a majority of farmers will either semi-retire or never retire. (Duffy 2006) The survey defined retirement, semi-retirement and never retiring as follows:

1. I expect that I will never retire from farm work. (You will maintain full managerial control and provide some labor to the farm.)
2. I expect to become semi-retired at some stage. (You will provide some managerial control and/or labor to the farm.)
3. I expect that I will retire from farm work at some stage. (You will provide neither managerial control nor labor to the farm.)

Thirty-one percent of those responding indicated they would never retire; forty-six percent indicated they would semi-retire; twenty-three percent indicated they would fully retire. (Duffy 2006) Of those indicating they would either fully retire or semi-retire they indicated that twenty-seven percent of their retirement income would come from the farm business. (Duffy 2006) The implication is that the successor must carefully consider whether or not the transfer of this amount of farm income to the owning generation, to partially fund, their retirement will cause any succession plan to be difficult if not impossible.

Duffy (2006) divided the responses of those surveyed in the most recent Iowa replication of the Farmtransfers survey into three categories: the first being production decisions, the second being management decisions and the third being financial decisions.

Production decision include the following: Plan day-to-day work, Level of inputs used, Decide timing of operations/activities, Decide work method/way jobs are done. Management decisions include the following: Make annual crop/livestock plans, Decide long-term balance and type of enterprises, Decide type and make of machines and equipment, and Decide when sell crops/livestock. Lastly, financial decisions include the following: Negotiate sale of crops/livestock, Decide when to pay bills, Negotiate

purchase of machines and equipment, Decide and plan capital projects, and Identify sources and negotiate loans and finances.

Clearly the authorities to make those decisions concerning the financial management of the farm are the last to be transferred to the successor. Conversely, the authority to make those decisions concerning production is the first to be transferred to the successor. The remaining management decisions are shared between the owner generation and the successor generation. (See Table 2 infra.)

**Table 2: Rank Order Of Managerial Authority Retained By Iowa Owner/Operators**

Decides when to pay bills	1
Identify sources & negotiate loans and finances	2
Negotiate sales of crops/ livestock	3
Decide when to sell crops/ livestock	4
Level of inputs used	5
Decide & plan capital projects	6
Negotiate purchase of machines & equipment	7
Plan day-to-day work	8
Decide work method/way jobs are done	9
Decide long term balance & type of enterprises	10=
Decide timing of operations activities	10=
Decide type & make of machines and equipment	10=
Make annual crop/livestock plans	11

The speed with which the transfer of decision making authority is transferred from the owner generation to the successor generation varies among the countries surveyed with England and Iowa having the slowest rate of transfer (Errington and Lobleby 2002). The pattern of the owner generation maintaining control of the financial decisions is consistent throughout the populations of those countries that have replicated the Farmtransfers survey. (Uchiyama 2004)

While the transfer of the decision making authority with respect to production decisions and management decisions is a necessary component of any farm business management succession plan, such transfer does not equate to the transfer of the control of the farm business. It is axiomatic that the generation that has the authority to make the financial decisions in the farm family business controls the farm family business. Therefore the owner generation must transfer the financial decision making authority to the successor generation in order to complete the farm business transfer to the successor generation.

The critical and often overlooked factor in the development of a farm business succession plan is the identification of the priorities/values of the parties involved (Baker 1997). The owner generation must provide the leadership in the development, as the owner generation possesses all decision making authority prior to the entry of the successor generation. Therefore, it is the owner generation and only the owner generation that can initiate the transfer of decision making authority. The decision as to whether or not to transfer such decision making authority to the successor generation is based upon the priorities/values of the owner generation.

For example, as noted above, in Iowa the owner generation expects to receive twenty-seven percent of their retirement income from the farm business. It is logical to assume that one reason to maintain control of financial decisions is that the priority/value placed upon a secure financial retirement is greater than the priority/value placed upon the transitioning the farm business to a successor. A further reason is that the owner generation is increasingly risk averse and may over estimate the risk associated with the transfer of financial decision making to the successor generation.

The identification of the values/priorities of the owner and successor generations is critical in the transfer of transferring managerial authority and responsibility. Whilst the discussion of the identification of values/priorities is beyond the scope of this paper the importance of their determination can be seen when the following is considered and understood.

- Values/Priorities = That which is important to an individual and lead to:
- Vision = That ideal condition envisioned at some future point in time and leads to:
- Mission = The behavior that is consistent with the values/priorities and vision and leads to:
- Goals = The specific accomplishments that are consistent with the values/priorities, vision and mission and require:
- Objectives = The criteria by which progress toward completion of goals will be measured and require:
- Strategies = The planned activities consistent with the objectives used to measure progress toward completion of the goals and require:
- Tactics = The tasks necessary to implement the selected strategy.

Two factors must be considered in developing that portion of a farm business succession plan that will result in the transfer of decision making authority from the owner generation to the successor generation. The first factor is the determination of what decision making authority will be transferred and the second is the timing and the sequence of such transfer. These two factors are closely linked and for pedagogical purposes only should be taught as separate subjects. It is advisable to present these subjects seriatim.

It is essential that the transfer of decision making authority be placed in an overarching context that describes and clearly sets out expectations of the owner generation and the successor generation. All too often the expectations of the parties are not described with the necessary specificity and particularity necessary to create a common vision, a common mission and mutually agreeable goals for the transition of the decision making authority from the owner generation to the successor generation.

An effective method of identifying what decision making authority is to be transferred is to have both the owner generation and the successor generation write a position description for the position. Given that each farm family business is unique and that the owners and successors are at different points in the transition process the writing of a position description allows the parties to describe their unique situation. After the owner generation and the successor generation have written such descriptions they will use both descriptions to create a mutually agreed upon description for the position the successor is to fill in the farm business. The completion of this exercise will clarify the expectations of both generations concerning the work to be performed, the level of responsibility of the position, the authority to make decisions, the rate of compensation and the factors that will be considered for compensation increases. It will also lessen the potential for conflict that is a result of unclear or unstated expectations.

Position descriptions should be written in plain language and should provide answers to the following questions:

- What is the work that is to be done?
- Why is the work to be done?
- When is the work to be done?
- Where is the work to be done?
- Who is to do the work?
- How is the work to be done?
- Who is to provide the necessary help to do the work?

The position that is to be filled by the successor should have a title that describes the nature of the work that is to be performed and the responsibilities required by the position. The purpose of providing a title is to identify the relationship between the owner generation and the successor generation. If the successor

is the child of the owner it is important for the owner to realize that the relationship is a business relationship and not a parent-child relationship and treat the successor as a business partner and not as a child, and the child needs to treat the owner as a business partner and not as a parent.

The position description should contain a summary of the duties that are to be performed. This summary should be a short and plain statement of the purpose of the position and should include a listing of who is to be communicated with on a regular basis.

A detailed listing of the duties and responsibilities of the positions and examples of the functions to be performed must be included. The amount of time designated for each function should be specified and the relative importance of each function should be listed. A designation of essential and non-essential function should be set forth.

The required knowledge, experience, training, skill and ability necessary to perform the work described should be stated and any unique or special abilities or skills should be prominently noted.

The range of compensation should be specified and should include method of compensation. Further, it should be specifically set forth when the position will be evaluated for increases and what factors will be considered in evaluating performance that will determine the amount of the increase in compensation, if any increase is warranted.

Once the position description is agreed upon the parties must mutually agree upon the rate of the transfer of decision making authority. A useful method for determining a time line is the critical path method of management. The critical path method allows the parties to identify the resources necessary to transfer the decision making authority, for example the successor completes certain training or works with the owner for a specified period time to learn the decision making skills employed by the owner. It is an effective method of analyzing the complexities involved in transferring decision making authority to the successor generation. The critical path method focuses the parties on the essential activities and is an effective method of monitoring the transfer of the decision making authority. It also requires the parties to establish priorities and the time needed to complete the transfer of the decision making authority. Lastly it provides a graphic overview of the transfer process.

The parties identify sequential activities and the parallel activities. The context in which the activity takes place determines if it is a parallel or sequential activity. Sequential activities are activities that are dependent on other activities being first completed. Sequential activities must be completed in an ordered sequence. Each activity in the sequence must be completed, or near completion, prior to the start of the next activity in the sequence. Parallel activities are activities that are not dependent on the completion of a previous activity or activities. It should be noted that parallel activities may be and usually are of equal importance to sequential activities.

An essential element of the critical path method is the estimation of the time needed to complete an activity. It is often difficult to estimate the amount of time needed to complete an activity and this is particularly true if it is a new activity.

It is normal to underestimate the time need to complete an activity. Also holidays, sickness, emergencies, unavoidable delays and events beyond the control of the parties must be considered. A systematic approach should be used to estimate the amount of time necessary for each activity and the parties should rely upon their experience.

The first step in the critical path method is to list all the activities that need to be completed to transfer the decision making authority to the successor generation. Many of the activities will be those set forth in the position description completed by the parties. The next step is to determine the priority of each activity

and to identify the earliest practical start date for that activity, the amount of time necessary to complete the activity and to determine if the activity is a sequential activity or a parallel activity. The parties should mutually agree upon how to measure the activity and who is responsible for the activity and how and to whom the activity will be reported.

The following worksheet is helpful in the listing and prioritizing all of the activities.

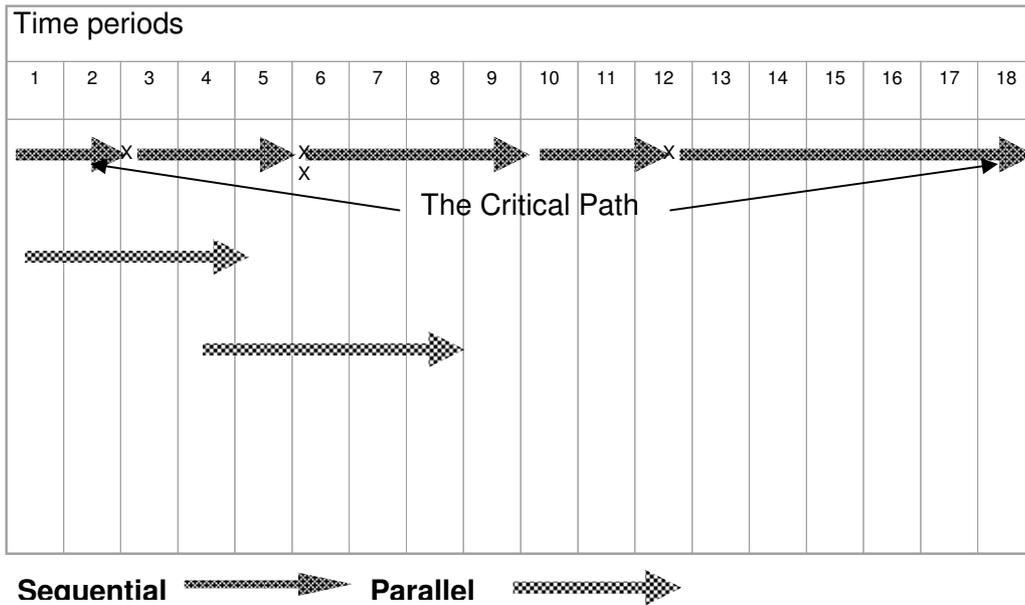
### Critical Path Worksheet

Activity \_\_\_\_\_  
 Sequential and dependent upon \_\_\_\_\_ or Parallel  
 Starting date \_\_\_\_\_  
 Amount of time until completion \_\_\_\_\_  
 How will the activity be measured \_\_\_\_\_  
 Who is responsible for the activity \_\_\_\_\_  
 How and to whom with progress be reported? \_\_\_\_\_

The next step in the critical path method is to produce a caption graph paper with the total of time needed to complete the plan which may be determined by summing the number of days to completion from the worksheets. Begin with the activities that have the earliest start dates and draw a line through the appropriate number of time periods. Show the activities as arrows the end with a X. Show the amount of time needed to complete the activity above each arrow and indicate if the activity is a sequential activity or a parallel activity. Make sure that the sequential activities are listed in the proper sequence and show the time taken to complete the activity above each arrow. Schedule parallel activities so as not to interfere with the sequential activities. It is obvious that any delay in the commencement or completion of an activity on the critical path will delay the completion of the whole plan or the time allowed for future sequential activities will need to be shortened.

The final step is to prepare a clean final copy of the critical path chart. The positions and length of the arrows show the start date and time needed to complete of the activity. The Critical Path is the longest sequence of sequential activities necessary for the completion of the transfer of the decision making authority from the owner generation to the successor generation. Set forth below is an example of a critical path chart.

**Figure 1: Critical Path Method Chart**



The combination of writing a position description containing a list and description of the functions to be performed and the decision making authority required by the position along with the determination of the priority of each activity and the length of time required for its completion is an effective method of educating the parties concerning the need for, and the way to, transfer decision making authority.