

Critical Success Factors for Business Transfers

Before beginning any type of two-generation business arrangement, the parties involved should examine their situation carefully and make a preliminary judgment of their potential for developing a successful two-generation farming operation.

The following discussion is designed to help analyze a farming situation. Below are *critical* success factors for determining the success of a two-generation farming operation. An honest evaluation of the following questions can help operators assess the chances of farming together successfully.

- Are the parents ready for a partner?
- Is the younger party committed to farming?
- Does the family have a common vision of where they are going and what they want to accomplish?
- Is the farm large enough?
- Can both parties live and work together?
- Are there non-farming children and how will they be treated?

A discussion of each of these questions follows.

Are the parents ready for a partner?

Are the parents ready to bring a new person or family into the business and begin turning over management, control, ownership and income? Parents are often delighted at the prospect of sharing the workload. But this new person is not a *hired hand*. After years of *calling the shots*, the parents are faced with the prospect of sharing control and management decisions. Also, because the business income is now shared, they may have to lower their standard of living.

Parents often want their son or daughter to return to the business so that the grandchildren will be nearby. But if they aren't ready to share the business and consider making changes, they probably aren't ready for a partner.

Is the younger party committed?

Is this an "I'll give it a try" situation? Or is the younger party firmly committed to farming? Is the younger party married? If so, does the spouse like farm life? If he/she is not married, exercise caution, as you do not know who all the future parties will be. There is always a chance a new spouse may not like farm life.

If there is some doubt regarding the younger party's commitment to farming, avoid getting into a partnership, corporation or other business arrangement where there is co-ownership of property. A testing stage where the two parties operate under an employer/employee arrangement would be easier to terminate.

What is the common vision?

What does each party want to accomplish with the business and business arrangement? Is each vision for the business consistent with that of the other family members? Only after a careful examination of each party's goals can a family begin to formulate a common vision of how the business will look in the future. The collective goals of all the parties will guide the family in developing the business and the proper process and business arrangement for transferring the business.

Spend time defining goals and discuss them with other family members. If any conflicts in goals arise, now is the time to reconcile the differences.

Is the business large enough?

No matter how well the parties get along personally, a two-generation business arrangement may not succeed if the business earnings are inadequate or the business is financially unsound.

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The business must provide the parents with a desired level of living as well as provide for their economic security during retirement years. In addition, it should meet the younger person's living needs as well as permit adequate debt servicing and growth in business equity.

Income the parties receive from outside the business, such as off-farm investments and off-farm employment, may also be considered. Often some financial subsidies from the older party to the younger party is required, which may place additional stress on the parents' financial position.

If there is any question regarding the adequacy or soundness of each party's financial situation, now is the time to contact an accountant, lender or management consultant, and take a realistic look at the economic and financial feasibility of developing a two-generation farming arrangement.

Can both parties work together?

Relationships are critical to the success of any twogeneration business arrangement, both in a family and non-family setting. If the people dimension is not right, then the arrangements may not work out. Make a careful evaluation of the *people situation*.

Personal relationships

All parties need to be tolerant, understanding and have the ability to overlook each others' faults. A business arrangement works best if the parties and families work together in a spirit of harmony and cooperation. In addition, mutual respect between the parties is important. Problems can arise as to housing, spendable income, labor commitments and life styles.

Business relationships

All parties should work towards similar goals to make the business succeed. When goals and values differ, care must be taken to arrive at a reasonable compromise. Joint participation in managerial decisions is another *must* if a two-generation arrangement is to succeed. Often a good arrangement consists of people who have different skills that complement each other, rather than people whose skills are too much alike.

How about other family members?

A major concern of the young person is how to eventually gain managerial and financial control of the business. The magnitude of this concern depends on the nature and size of the business, the number of heirs involved, and the number of years before the parents' retirement.

Recognize that another prime goal of the family is the maintenance of overall family goodwill. Plans should provide for the fair and equitable treatment of other heirs and the financial security of the parents. Agreements that unduly favor one family member should be avoided. Good communication among all family members is essential, particularly when arrangements are being changed or concessions made.

Giving it a try

One of the best ways to find out if a situation will flourish in a two-generation arrangement is to farm together. A *testing* arrangement before entering into a more permanent business structure is advisable. If each party has not tried to farm together, or have done so only on a limited basis, it may be advisable to have a two or three year trial period.

... and justice for all

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