A variety of complex issues come together in planning for the transition of a farm or ranch family business to the next generation. A business, including farms and ranches, are made up of assets, labor, money, and management and in order for the business to continue all of these need to be passed to the succeeding generation. Our experience reveals that when farm or ranch families think about succession or transition, they focus attention almost exclusively on the land and capital. While those are important resources and may involve a large amount of wealth, they are certainly not the only (and may not be the most important) issues to consider in the business succession process.

In this session we focus on issues surrounding the transfer of management, labor, and to some extent ownership over time in the farm or ranch succession process. We describe the management transfer process and illustrate the importance of planning for transfer over the appropriate time period. We also demonstrate strategies and tools that have been successfully used in transition planning educational programs and individual situations. Finally, we provide individual examples of both successful and un-successful transfer of management in farm or ranch settings.

Management decisions range from day-to-day operational decisions to long-run “strategic” decisions for the business. The succession process cannot and should not begin with the successor participating in all levels of decision making and farmer should not be expected to immediately give up all levels of decision making. The time line for transferring ownership, income, and decision making authority should include the various stages of testing, commitment, establishment, and withdrawal as the successor gradually enters the business and the former owner gradually exits the business. During the testing and commitment stages the successor may only be contributing labor for wages and participate in making decisions at the day-to-day tactical level. During commitment and established stages the ownership of the operational assets needs to be transferred to the successor. At the same time the income from the operation begins to be shared as the successor acquires increased equity in the assets, and the successor takes on more and more decisions regarding financial commitments and other managerial issues. During the final stage, the owner withdraws from the operation and may maintain ownership of farm assets but have a greatly reduced contribution of labor and management decisions. Obviously during this phase the successor needs to be prepared to make strategic decisions of the business.

There are no set guidelines for the time the process needs take, in this session we demonstrate a number of tools and experiences that have helped facilitate successful transitions. For example, financial planning tools are available to assist in planning the timeline for ownership and income transfer. Organizational charts can be used to facilitate discussions among the stakeholders concerning the timeline for the transfer of decision making authority. Lastly, resources are available to help prepare the successor and other business stakeholders to make long-term strategic decisions as the former owner exits the business.