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HOW NOT TO FARM TOGETHER

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Preface

This paper was originally presented by Eddy L. LaDue at the Farm Women's Finance Forum on November 15, 1990 at the Holiday Inn in Utica, New York. The basic ideas represent impressions obtained by Carl Crispell while conducting interviews of 35 farm families with farming together relationships during the summer of 1990. The research team conducting the interviews for the study referred to in this paper included:

Carl Crispell	*Coop. Ext. Specialist*	*Central Souther Tier*
Stephen Hadcock	*Coop. Ext. Agent*	*Columbia County*
John Thurgood	*Coop. Ext. Agent*	*Washington County*
Allison DeMarree	*Coop. Ext. Specialist*	*Western New York*
Mark Anibal	*Coop. Ext. Agent*	*Montgomery County*
David Thorp	*Coop. Ext. Agent*	*Livingston County*
Edward Staehr	*Coop. Ext. Agent*	*Delaware County*

The individual farm examples presented in this paper have been slightly modified to protect the confidentiality of survey participants. Details about specific cases have been added or modified while keeping the basic idea intact. Individual farm families or family members who see themselves or a neighbor in a particular example should remember that, while the principle may apply, it is highly unlikely that that family or person is the specific family or person referred to in the paper.

HOW NOT TO FARM TOGETHER

*Eddy L. LaDue and Carl Crispell**

What I would like to talk with you about today is what is frequently referred to as farm partnerships or family farm business arrangements or passing the farm on to the next generation, and which I will refer to as farming together relationships. I call it that because many of the families that are farming together are not partnerships, even if a partnership is used there may be a pre-partnership or post-partnership arrangement and many of the arrangements called partnerships aren't really partnerships. Further, a corporation may be involved rather than a partnership.

During this past summer we did a survey of farming together arrangements on 46 New York farms. Carl Crispell, a farm management specialist with Cornell Cooperative Extension developed the questionnaires and did most of the interviews. At each farm we interviewed the entire group that was farming together to get information on the arrangement and have each member complete a sheet on their concerns. Then we interviewed each family involved separately. We had different questionnaires for the younger generation and the older generation. Frequently, the interviewer spent close to half a day at each farm. In that process we found 14 clearly different farming together relationships.

What I am going to talk with you about today is some of our early impressions from that study. Only part of the data are summarized, but we feel we have learned some things from the interviews themselves and the summarization that is done, and I would like to share some of those with you.

I have titled my presentation "How Not to Farm Together" and I have a list of 10 things that we have concluded that you **SHOULD NOT DO.** I have numbered them one through 10 so that those of you who get bored will know that when I get to nine, I am almost through!

1. DON'T TALK ABOUT (discuss) FAMILY CONCERNS

Don't talk about them when the younger generation is thinking about joining the business. Don't talk about them when you are forming an arrangement. Assume they will magically work themselves out. Don't talk about them after a partnership of other arrangement has been formed. Such discussion can be disagreeable. It could *cause* arguments.

However, discussion can be very cathartic in the long run. Without discussion, little problems can fester into big ones. I told you we talked to the younger generation and the older generation separately. Frequently, one party would tell us about concerns that they had, which they had not discussed with the other party. Our discussions with the other party led

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us to believe they could be resolved if all parties just talked to each other about them.

For example, in talking with one family we learned from the younger generation that: the business was not profitable. They were not convinced they could make it acceptably profitable. Both could get reasonable off-farm jobs (the wife already had one). But, his parents wanted them to continue with the family farm.

However, the senior generation indicated that they probably would be better off financially if the farm were sold now. The farm had not been handed down for generations, so there was no reason that it needed to stay in the family. But, they wanted to give son and wife a chance to farm.

Neither generation had talked to the other about their concerns. Both would likely feel better in the long run if they had broached the subject. If they had we would likely not have been able to interview them - because they probably would not have been farming!

2. DON'T LET THE YOUNGER GENERATION GET AWAY FROM THE FARM FOR A MINUTE

Don't let them go to college. If they do go to college, make them come back to the farm immediately after completing their education. Don't let them take a nonfarm job for awhile before returning. After all - if they leave, they may never come back!

Certainly, not coming back is a concern to some families. However, some of the strongest businesses that we interviewed were situations where the son had done something else for a while -- worked for a feed dealer -- worked as an ag lender.

It doesn't do any good to keep the younger generation on the farm if the are not sure they like it. Some of the people most committed to the farm were people who had done something else for a while and then returned to the farm business.

Parents may be young when the younger generation graduates from school. Frequently they will be 45 years old, or even younger. Forty-five is young! Believe me 45 is young. I used to have a different view on this issue, but as time passes it becomes clearer to me. A young senior generation may not be ready to transfer assets or management.

It is also often difficult, particularly for the senior generation, to switch from parent-child to adult-adult or partner-partner relationship. The parent-child relationship has developed over a long time. The senior generation is used to saying:

Don't touch that stove.
Eat your spinach.
Do your homework.
No, you can't drive the chopper at 10 years of age.
Stay away from that drinking party.
Don't drink and drive.

It is often difficult to switch from this perspective to treating them like equal adults; treatment which they deserve and would get if they were working any place but home. Being away from home for a few years can make that process easier. In one strong business we interviewed, the son worked for an agribusiness company for a few years before coming back. During that time his success in that business earned his father's respect so that when the son returned to the farm, it was clearly a partner-partner relationship not a parent-child relationship.

3. FORM A PARTNERSHIP AS SOON AS THE YOUNGER GENERATION COMES HOME

Get their name on the dotted line. Or, from a slightly different perspective, don't worry about compatibility, get them tied to the farm as soon as possible.

Practically everyone we talked to, recommended that the younger generation work for wages for a while before becoming a legal part of the business. Some questions need to be answered before the younger generation signs on for life and the older generation commits its assets to a new venture. Among those questions are:

(1) Does the younger generation really like farming on a full time basis? It may be a lot different than the part time work they did while in school.

(2) Are the generations compatible enough to work together? Are their goals compatible? Can they develop a mutual respect? Do all parties have enough flexibility or give and take to adjust to the needs and capabilities of each other.

4. TAKE THE PARTNERSHIP AGREEMENT OFF THE ATTORNEY'S SHELF OF BLANK FORMS

After all, all farms are alike. All farm families have the same goals. All families have the same capacities and assets to contribute. All want the same things out of a partnership. *Right??* **Wrong!!**

Many of those blank forms should never leave the shelf. The partnership, or farming together relationship, should specify;

(1) Ownership and changes in ownership of assets.

(2) How operating income should be distributed.

(3) How management will be shared over time. As I said earlier, we found 14 clearly different ways of doing this.

Many of the agreements we found were not doing what the people wanted them to. One family paid thousands of dollars for a partnership agreement, but did not really know what was in it and did not really operate the way the agreement said they would. The business was making no money. Family relations were bad! Clearly, the agreement was not facilitating successful operation of the business.

Another family had complete faith in their attorney. They did not understand what he had prepared. Some odd things were happening. The son was responsible for debts on the fathers property. They were repaying the debt so rapidly that even though the business was reasonably profitable there was not enough money for family living for anyone. Again, the agreement was not doing its job.

5. TREAT THE PARTNERSHIP AGREEMENT LIKE A DEAD BAD RELATIVE

What do you do with a dead bad relative? Bury them and forget them.

One of the things that we did in the survey was ask if we could see a copy of the agreement if there was one. Everyone said "sure, no problem". However, a few would follow that by staring off into space and scowling and saying "if we can find it". Some never found them - and they seriously looked for them!

Most found them but in many cases what the family said the agreement said, and what it really said, were two different things. They were just not operating the way the agreement said they would. Agreements need to be changed periodically. The family changes. The world changes. The business changes. What was appropriate for a 60 cow farm being expanded and improved to support two families may not be appropriate for a 250 cow farm with three full time employees. What was appropriate when the junior generation owned nothing may not be appropriate when they own considerable assets.

Farm situations and opinions change slowly and we tend to forget what we used to think. The agreement needs to be reviewed annually or at least every few years to see if it is still appropriate -- or, to be sure it says what we remember it to say.

6. MAKE THE ARRANGEMENT AS COMPLICATED AS POSSIBLE

Many people did not understand their arrangement. As a consequence they did not do what they had agreed to or just did not know whether they were following the legal document of not.

Many people with capital accounts (where the ownership of the business changes annually based on the earnings of the business and the amount withdrawn by each party) did not understand them -- and consequently were not updating the accounts. Thus, no one knew where they stood.

The KISS principle (Keep It Simple, Stupid) needs to be employed in the development of family agreements. Lawyers, agricultural economists, other advisors and farmers need to remember that an agreement will be followed only if it is understood.

One family says ownership of this business will be the ratio of the number of years you have been here to the total number of years both have been here. So, if the father had been on the farm for 25 years before the son joined, after one year the son would own 1/27 of the business, after two years he would own 2\29, and so on. This may not be fair forever, but it is simple.

7. TREAT THE DAUGHTER-IN-LAW LIKE AN IGNORANT SLAVE

You may say I don't need to talk to this group about this topic - we know. However, there are some people here who's primary role is no longer that of daughter-in-law. The expectations of mothers can cause daughters-in-law considerable problems.

One thing that we have to remember is that the role of women in society has changed in the last 20-30 years. The appropriate roles and expectations of women have changed. Women can pursue most any kind of occupation they want. We found doctors, computer programmers and welders as well as nurses, teachers, secretaries and homemakers.

It is frequently better for the farm business for the spouse of the younger generation to work off the farm and contribute her wages to the family kitty than to stay at home and help milk. She will be happier and the business will be better off. In other cases it makes the most sense for the young wife to stay at home, not as a housewife primarily, but as a partner in the business.

The older generation needs to be flexible enough to allow the younger generation to determine what is best for their particular situation -- and frequently that will not be the same sort of relationship that the senior generation had. In this case, the past may not be a good guide for the future.

Some examples:

(1) The daughter-in-law is a lawyer. Mother thinks daughter-in-law is not supportive because she does not take food out to the men when they are working late. But the income the daughter-in-law contributed to the business far exceeded what any other member made.

(2) The mother was concerned that the son was not married. Was she concerned that her 35 year old might not achieve the joys of married life? No, when she was young she did a lot of work on the farm to make it go. If he were married, there would be a wife to do some of the work.

(3) Son decides not to let his wife get involved in the ownership of any assets. The marriage failed. The family is convinced that the son was smart. Is it possible the marriage failed because she was not trusted or made to feel part of the family business which she wanted to be part of?

8. DON'T "GIVE" ANYTHING TO THE YOUNGER GENERATION

In fact a high proportion of the successful relationships involved the older generation giving assets to the younger generation or selling assets to them on a concessionary basis. Many of the partnerships would not have gotten off the ground if some gifting had not been involved. Gifting is of course used to reduce or avoid payment of inheritance taxes. It is also used to give the younger generation sufficient ownership in the business to earn a decent living or make the younger generation's financial involvement sufficient that they take a serious interest in the business. These are the normal rationales for gifting.

However, does the senior generation get anything out of the gift except the knowledge that after they die less will be paid for inheritance taxes and that the family farm will stay in the family? Frequently yes. We had more than one father state that his own net worth was higher now, even though he had given the son considerable assets, than it would have been if the son had not come home. With the son and daughter-in-law home, they had improved and expanded the business so that the senior generation's share was bigger that the total would have been otherwise.

9. DON'T GIVE THE YOUNGER GENERATION MANAGEMENT RESPONSIBILITY UNTIL THEY PROVE THEY CAN HANDLE IT

How do they prove they can handle it if they never get any responsibility? This reminds me of the farmer who wasn't sure that his son was ready to take over the management of the business yet. The son had been integrally involved in the business for some time, but Dad just was not sure son was ready to take over everything. The son was 53!

An important thing about this issue is that some families do such an outstanding job of transferring management while others do so poorly. Some give the younger generation (husband and wife) responsibilities, and when these responsibilities are mastered, they give them more. In other cases the senior generation does not realize that it is important to transfer or share management responsibilities. The son says "they never listen to me", "I don't get to even help decide anything".

Most unfortunately, a few families did not realize that the farm was being managed or that transfer of management responsibility was an issue. It was sort of like "no one is managing this business, we do all the work ourselves". Remember what I said earlier - a farming together relationship needs to decide how to share assets, operating income and management. All businesses are managed: some better than others.

10. DON'T WORRY ABOUT THE PROFITABILITY OF THE BUSINESS. IF IT IS UNPROFITABLE, IT MUST BE DUE TO "BAD ECONOMIC TIMES"

During the farm financial problems of the mid 1980's there was this sort of bad joke going around that said "what is child abuse for a farm family? Leaving the farm to the child!" Now we would, of course, not agree with that statement. We may not even think it is funny. But there are some farms where that is closer to the truth that we would like to admit. There are other farms that are just too small or otherwise limited that they can never support two or three families.

When we look at the distribution of farms by their net income, or other measure of profitability, the variability is getting greater and greater. More farms experience net incomes in excess of $50,000 per year. A number of farms make little or no income.

Families need to take a realistic look at the business the younger generation may enter. If it is not making money enough for one family now, why will it be able to make money enough for two or more families in the future. Is it the farm or the management? If it is management, is there reason to believe the son will be a better manager than the father?

One unprofitable business we interviewed used capital accounts. The son started with nothing and after a few years had worked up to a significant negative equity. The wife was working off farm to support the family. The son was not overly upset with the situation, he liked what he was doing and figured he would get the farm someday. However, his wife was dissatisfied -- and with good reason.

Summary

Successful farming together relationships require considerable thought and careful planning. Hopefully some of the experiences of these farm families may be helpful to those of you who are in or thinking about such arrangements.

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