

**THE FARM FAMILY AND THEIR FARM BUSINESS:
A MULTIDISCIPLINARY, BUT POTENTIALLY EXPLOSIVE MIX OF BUSINESS, LEGAL OWNERSHIP
AND FAMILY ASPECTS.**

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Abstract

The family farm is a complex interaction overtime between the three major or macro components; the farm business, ownership and the farm family. Failure by the farm family to understand or appreciate the complexity of the interaction or be aware of the potential effects each components may have on each other may well result in less than optimal use of the resources available. Inheritance can turn a viable family farm into a non-viable family farm, 'overnight'.

The Australian family farm is a very large investment, on average, of around AUD \$1 to \$1.5 million, yet the family focus is primarily farming, rather than on the provision of cash to satisfy family needs. The farm family 'accommodates' to the farms cash output and at times off farm income is a necessity to support or supplement the farm income. Coupled with this situation, ownership of land, the basis of family farming, creates a paradox for many farm families, as land has two value systems; one during the owners life time to earn a 'living' (historical cost); and on death, as an asset for distributing to other family members as an inheritance (current cost). It is this dual use of ownership that creates the paradox. In today's legal environment parents are concerned about how to be fair or to provide for their children equally. The farm is usually the parents only/major asset and the child, who takes over or 'inherits' the family farm pays out their siblings their share of 'inheritance', this in effect is 'buying the family farm each generation' and significantly affects farm viability. Inheritance undermines farm business sustainability and competitiveness. The family farm needs to grow to keep up with inflation and technological change, but this only increases the inheritance problem.

Traditionally, each of these three major components have been serviced by separate and specialised service providers and at times the advice provided for one component, may be dysfunctional to one or both of the other major components. There is thus a need for a macro generalist to help overcome the shortcomings of the present specialist advice system provided farm families.

A number of farm family members were asked to evaluate and rate a number of options and ideas, as an alternative to the inheritance paradox, which would provide a basis for growth and building on what the parents had built. The No. 1 rating was separating the family farm into the components of; the farm business; the ownership structure; and the farm family. Most of the options/ideas were new to the participants and the comment was made many times, that there was a lack of information available to assist farm families with their business and family issues and that they do not know what questions to ask. This research has significant implications for farm service providers. Who is servicing who?

Introduction

Modern marketing firmly fixes on servicing client or customer needs, except when it comes to the farm family and their farm business. The multidisciplinary nature of family farming requires an understanding of the dynamics involved in the relationships between parents and children, between siblings, between the family and the farm, as a place to live or way of life and to bring up children as their home and then for the farm to be passed on to the next generation. This engenders an approach to ownership not experienced by many non-farm individuals.

The mix of relationships involved changes over the family life cycle and this has ramifications for farm service providers and needs to be understood, otherwise advice or technology, which is applicable to the family farm may not be seen as relevant at that time or advice provided them may actually conflict with advice from other farm service providers. This could result in the loss of the family farm, lower return to applicable technology or lower return to the rural supplier business or service provider.

University agriculture courses specialise on physical production/productivity aspects of farm businesses and graduates carry this focus into the field. Many graduates are employed by rural service providers. Whilst farm families need to make changes and produce products, which meet industry/customer requirements, graduates are still trained along specialist traditional lines. Unless the farm family members know what questions to ask and farm family members say they do not know what questions to ask, then the advice potential of university agricultural graduates must be considered to be sub optimal in relation to the family farm business. Agricultural graduates tend to focus on the progressive farmers, whilst at the same time Australia has a history of needing government rural adjustment schemes to help solve chronic farm income situations, which do not seem to go away. Why is industry adjustment necessary from time to time when lack of availability of applicable technology is not the issue? In fact, the intergenerational and inheritance issues each generation create and maintain the rural adjustment problem.

Family farm businesses in Australia are big investments, which average \$1 to \$1.5 million AUD, however, return to this investment in many cases is generally low. In numerous cases younger generation members are reluctant to return home to the family farm. Farming is regarded as a 'old' occupation, where farm families struggle during their lifetime, but die rich and yet there are a number of very successful large farming enterprises. To focus on the large investment is to provide \$1 to \$1.5 million of opportunities for the farm family and not an inheritance.

In 1986 I 'discovered' that ownership was the neglected area of family farming in Australia. A farm family explained to a Farm Management Conference, that they lost their family farm because the legal structure, a partnership, was unable to protect the farm business from a family crisis. I had an agricultural background, both academic and practical, but never considered ownership as an issue. I now realise that ownership is the **key** issue with family farming. Inheritance is an extension of the ownership aspect of the family farm business.

The Research Project.

The objective of the research was to evaluate farm family members reaction to a number of ideas/materials, which had been developed since 1986, to assist farm families deal with the family, ownership and farm business issues. The most innovative idea was to set up a Unit Trust and transfer the farm business to the unit trust, keeping the land in the parents name and allow the children to buy into the farm business, thus business would be the focus and not inheritance. Viability would be enhanced,

as no one would have to pay out siblings. All family members would be encouraged and given the opportunity to buy into the family business. The land could be transferred by a will or set up a trust/company to own the land.

This research was funded by the Rural Industries Research and Development Corporation (RIRDC), a major Australian research funding body.

Initial research base.

A set of six papers had been developed in 1997, which summarised a manual, 'Rural Business and Modern Estate Planning', I had been developing since 1986. Each paper contained 3 ideas, and these papers were discussed with the farm family members, who attended the 4 workshops, each of 5 to 6 hours duration. At the end of each paper the participants evaluated the ideas on a seven point scale, as to the usefulness to them. At the end of the workshop discussion, participants were asked to rate 10 of the 18 ideas discussed during the workshop. The objective of the rating of the ideas was an attempt to determine the trigger points for commencing workshops, the sequence and content of material to be discussed in future workshops. Participants were also asked to evaluate the workshop overall usefulness to them. Each workshop was recorded.

Each workshop commenced with the idea or model of separating the three major planning areas of any family farm business. This model was rated No. 1.

The reason, for looking at these three areas separately, is that each has a different impact on the family and their business.

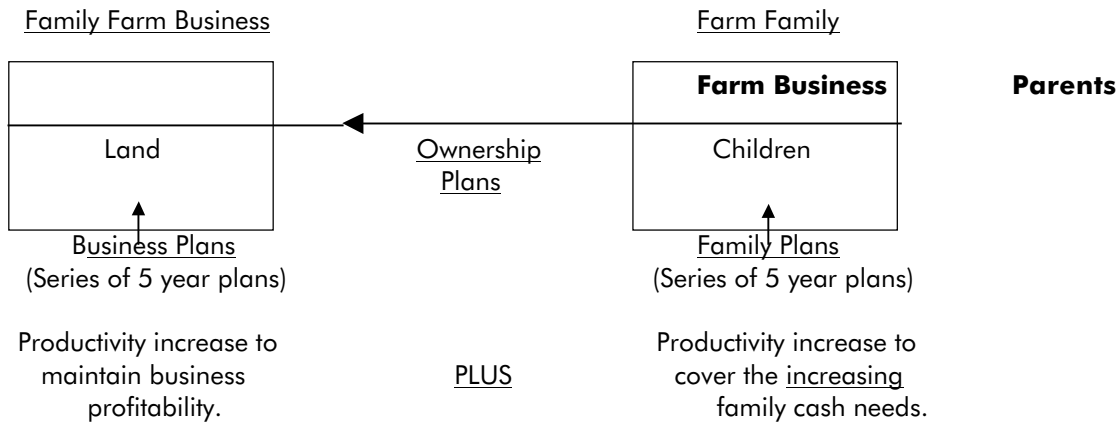
Family: What is involved in looking at opportunities for family members. Family goals and the cash needs, to achieve these goals. The family life cycle results in an ever increasing need for cash, until the children are self supporting or earning an income.

Ownership: Understanding what your ownership structure will and will not do for you. Some 92% of farm businesses are owned as a single proprietor or a partnership. These ownership structures are cheap to set up, but are inflexible for many family situations. Generally, the ownership structure was selected for tax minimization, as suggested by their accountant, and not for family purposes. Ownership may be the major constraint to providing opportunities for the family and the reason many family farms are lost.

Business: The farm production and profit cycle is an annual event. Profits need to be calculated annually for tax reasons. Decisions are made mainly for tax purposes, but where do you want your business to be in the future?

These three separate components of the family farm can be summarized in the following model.

Relationship of the family farm to the farm family.

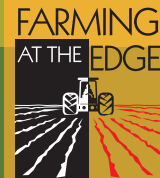


Rating of the 18 Ideas (3 workshops).

TOPICS COVERED IN SET OF SIX PAPERS	MAL E	FEMAL E	OVERALL TOTAL	OVERAL L RANK
1. Relationship of the family farm to the farm family	72	72	144	1
2. Clarifying farm family goals	69	58	127	2
3. Determining farm family cash needs	48	47	95	5
4. Exploiting the opportunity to teach family	58	62	120	3
5. Level or type of opportunities to involve family	45	49	94	6
6. Using the expertise of farm service providers	25	26	51	12
7. Relationship of family cash needs to the use of Wills	32	8	40	14
8. Specific factors that will affect the content of a Will	22	1	23	17
9. Relationship between Wills, ownership structure, and business plans	46	27	73	7
10. Selecting an appropriate ownership structure	45	54	99	4
11. Changing from one ownership structure to another ownership	25	10	35	16
12. Effective use of family trusts	33	19	52	11
13. Risk and the farm family business	10	33	43	13
14. Risk and using specialist farm service providers	2	20	22	18
15. Risk and farm family plans: family, ownership, and business plans	31	24	55	9
16. Family plan content	33	21	54	10
17. Ownership plan content	37	23	60	8
18. Business plan	26	11	37	15

The evaluations for each of the first 12 of the 18 ideas/aspects in the above table are set out in the Appendix. Only the first 12 ideas/aspects were discussed in depth, which left little time for the indepth discussion of the remaining 6 ideas/aspects in the 5 to 6 hour workshops.

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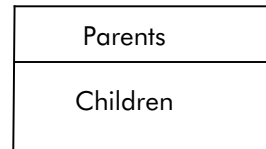
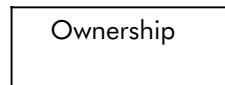


The first 6 ratings are regarded as triggers or driving aspects in any farm family situation as these ratings were very similar for both males and females and being selected in the rating scale, as individuals were asked to rate 10 of the 18 ideas discussed. Thus the need to relate information provided to farm families needs to take into consideration the farm families present disposition.

The 10 ratings can be shown as follows to display the interactive nature of the major aspects;

Relationship of ratings 1 to 10.

Rating 1. Segmentation model.



Rating 2.

Family goals.

Rating 3. Teach children
business skills.

Rating 4.

Selecting an ownership
structure.

Rating 5.

Two (2) generation
cash needs cycle.

Rating 6.

Opportunities to involve
family members.

Rating 7. Relationship between;
Business

Ownership

Wills.

Rating 8.

Ownership plan content.

Rating 9. Risk and family plans;
Business plans

Ownership plans

Family plans.

Family plan content.

Other aspects of the research project.

RIRDC required that a short paper be developed covering the major outcomes of the base research and this paper was presented for peer review prior to publication in a Farmers Options Manual. This paper formed the basis of a 1 hour seminar presentation, "Techniques for growing the family farm business", to the Wimmera Conservation Farming Association 7th February 2002 at Dimboola in western Victoria. A one page questionnaire with 3 questions, was distributed to gain feedback from those present, as to the usefulness of the information from the research. Seventy one (71) (or approximately 90% response) completed the questionnaire.

Question 1 asked if new ideas were presented with 77% saying 'yes'. Two key comments were, "Operating ownership of land separate from business" and "Emphasising the importance of the division between Family/Land/Business".

The second question asked, whether participants would like more information or whether they had all the information they required for family, ownership and business aspects. Family issues required by 75%, for ownership 69%, on developing business plans, 70%. Comment included, "I think these services are available, but we need more input from accountants, banks, business lessons at college", "Limited people available. It is a specific and important area. It is delicate – needs careful handling" and "Enormous need for good professional assistance".

The third question, 'Is building on what parents have developed a reasonable alternative to trying to treat children equally or fairly with an inheritance' attracted 82% response. 'Allowing children to buy into the farm business in order to help build up the farm business, a good idea or not?' gained a 90% acceptance as a good idea.

A final comment, "I believe we have a good plan in place. But it is good now to see this information coming to the fore. This is the true meaning of 'Sustainable Agriculture'".

Peer review of the paper was negative, so the paper was forwarded to 55 farm families, who were asked to evaluate the paper. The 3 page questionnaire experienced a 50% response for a very time consuming exercise. The results were very similar to those obtained from the workshops.

A further aspect was 17 case farm businesses. Except for two case study farms, which were regarded as successful intergenerational transfers, all the other family farms experienced varying degrees of problems from minor to major family disasters. In all the negative cases the 6 triggers discussed above were missing.

Conclusion.

This research clearly shows that there is a need for a generalist (preferably a macro generalist to cover business, ownership and family aspects. A micro generalist would be one who has an understanding of the agricultural and financial aspects or the farm business only) approach to the provision of information to farm families **in addition** to the traditional specialist. Tertiary agricultural institutions are the best placed rural service provider to provide the necessary expansion of service needs/requirements, as graduates enter both the farm business and rural supplier areas of employment.

Family farming is still a very significant component of Australian agriculture and a better service needs to be provided. A 'Centre of Farm Family Business Development' is needed to develop the general approach necessary. We need to provide



			1	8	5	1	27
						3	

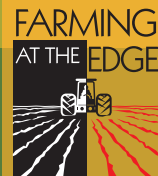
2. Clarifying family goals

Not necessary		1	2	3	4	5	6	7	Extremely necessary
20-30 yrs	M					1			1
	F							1	1
31-40 yrs	M							1	1
	F		1				1	1	3
41-50 yrs	M				1		1	5	7
	F	1					1	4	6
51-60 yrs	M		1			1	2	2	6
	F						1	2	3
61 + yrs	M							2	2
	F								
		1	2		1	2	6	1	30
								8	

3. Planning family cash needs

Not necessary		1	2	3	4	5	6	7	Extremely necessary
20-30 yrs	M							1	1
	F							1	1
31-40 yrs	M			1					1
	F					1	1	1	3
41-50 yrs	M					1	1	5	7
	F						3	3	6

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51-60 yrs	M				2	1	3	6	
	F			1			2	3	
61 + yrs	M				1	1		2	
	F								
				1	1	5	7	1 6	30

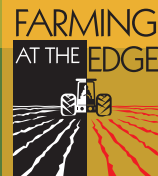
PAPER TWO

1. Teaching family members business skills

No use		1	2	3	4	5	6	7	Extremely necessary
20-30 yrs	M						1		1
	F							2	2
31-40 yrs	M							1	1
	F						1	2	3
41-50 yrs	M						1	5	6
	F						1	5	6
51-60 yrs	M						2	3	5
	F						1	2	3
61 + yrs	M						1	1	2
	F								
							8	2 1	29

2. Understanding the type of opportunities available to family members

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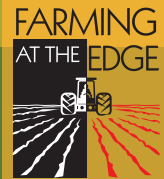


Provided nothing new		1	2	3	4	5	6	7	Provided new options / insights
20-30 yrs	M						1		1
	F				1			1	2
31-40 yrs	M							1	1
	F						1	1	2
41-50 yrs	M	1						5	6
	F					1	4	1	6
51-60 yrs	M		1			1	3		5
	F						1	1	3
61 + yrs	M		1	1					2
	F								
		1	2	1	1	2	1 0	1 0	28

3. The Planning Frame

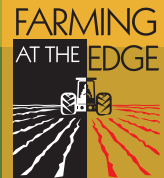
Not useful		1	2	3	4	5	6	7	Extremely useful
20-30 yrs	M				1				1
	F							2	2
31-40 yrs	M							1	1
	F						2	1	3
41-50 yrs	M			1		1	1	3	6
	F				1		1	2	4

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51-60 yrs	M				1	2	1	1	5
	F						2	2	4
61 + yrs	M					1		1	2
	F								
				1	3	4	7	1 3	28

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	F			1	1		1		3
41-50 yrs	M	2			1	1	1	1	6
	F				2			3	5
51-60 yrs	M		1			1	2	1	5
	F		1			1			2
61 + yrs	M						1	1	2
	F								
		2	2	1	4	5	5	8	27

3. Effective use of family trusts

I was aware of this information		1	2	3	4	5	6	7	Considerably increased my knowledge of trusts
20-30 yrs	M					1			1
	F						1	1	2
31-40 yrs	M					1			1
	F			1	1	1			3
41-50 yrs	M	1	1			1		3	6
	F				1	1		3	5
51-60 yrs	M		1			1	2	1	5
	F					1			1
61 + yrs	M	1		1					2
	F								
		2	2	2	2	7	3	8	26