A Nuffield Farming Scholarships Trust

Report

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Improving the capacity to manage change in family farms

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Contents

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1. Executive Summary

Since my return from agricultural college to our family farm I have been encouraged to participate in the financial planning and management of the business. This quickly developed to allow me to also assume responsibility for the strategic direction. I realise how fortunate I have been, and am well aware this is not the case for many new entrants to farming. Most struggle to prise the cheque book, never mind assets such as land, from the grasp of the "grey generation".

All too often it's easier to avoid tackling the difficult issues, choosing to "plough that field instead" because it appears more urgent. As a result, the ostrich approach is usually the preferred option, meaning succession planning is anything but, and only occurs on the death of a senior family member. In other cases, poor advice or complete lack of expert input can create huge problems and financial burdens for the next generation of agricultural family businesses.

Farming in an area where owner occupied family farms dominate, I have seen many examples of poor succession planning and my study sought to find solutions to assist with this complex problem.

Intrinsically linked to this is the ability of the new generation to have sufficient management training or experience to prepare them for the task of setting the strategic direction and managing this family enterprise. Often the youngster is not as business savvy having been focused more on the daily production routine, and many find themselves out of their depth dealing with finances, staff issues and asset management.

I found no single answer to either of these two issues: no solution that can be applied to every family and their farming business, as the dynamics of each situation and the individuals involved are so varied. However, I did identify some ways to assist with managing generational change.

My travels took me to New Zealand, Australia and China as well as considering the situation in Ireland and the UK and other EU member states. I met family farmers who had wrestled with what to do about involving the next generation. Some did nothing and only realised their error when it was too late. Others identified the need to instigate succession planning but didn't know how to go about it. I encountered facilitators trained in mediation who assist farming families through the challenge. By defining their aims at the start of this process, the family seek to get from where they are now to where they want to be.

Open communication between all family members is a key step to removing the mystery and mistrust that often besets intergenerational transfer of farm businesses. Agreeing the outcomes by consensus and including all parties in the process, means the aims are more likely to be reached with all family members still on good terms. The thorny issue of divorce is a big concern when transferring assets, although I came across several options to potentially tackle this.

The acquisition of management skills again depends on the individual and their learning experience or style. Training providers need to focus more on meeting the needs of the student rather than pushing farmers down the route of achieving academic qualifications, which do not necessarily improve the capacity to manage their business.

2. Personal introduction

I am a forty something, practical farmer who completed a Higher National Diploma (HND or Have No Degree as we called it) in Agriculture at the Welsh Agricultural College. After spending six months working on livestock and cropping farms in Australia, I returned to the family farm near to Newtownards on the Ards Peninsula, in Northern Ireland.

I am married to Jillian and have two children, Alexander 13 and Carys 11, though it is too early yet to know whether either wishes to farm.

Carys, Jillian, Alexander and me at Hobbiton, North Island, New Zealand

At the outset I wish to express my heartfelt thanks to my wife and children for indulging me and permitting me to undertake my Nuffield journey. This is of particular significance given the fact that my wife's sister Lynn died suddenly in July 2011, a few hours after Jillian, our children and I arrived in Wellington, New Zealand. They had only joined me in Auckland just ten days before we had to return home, following this tragedy. Given the difficulty Jillian and her family have had to deal with, I am fortunate that I was allowed to complete my study.

I also wish to sincerely thank my parents for their encouragement over many years and of course for taking care of things at home and on the farm during my times of absence and the preparation of this report.

We have a modest farming business which I farm in partnership with my parents. Livestock are the main enterprises with a commercial sheep flock and suckler-to-beef herd. We grow a small area of cereals which provides grain and straw for home use and in 2004 established a biomass business producing and processing wood chip as a renewable fuel.

Our farm is typical for Northern Ireland being owner occupied and family run. We are constrained geographically living on a peninsula but also by the limited opportunity to expand our farming business, given high capitalised land values and the minimal supply of available farmland. The only realistic option to increase the area farmed is to compete with neighbouring farmers for rented land which is available on a one year "conacre" basis, a system unique to this part of the world.

Traditionally farms pass down the generations usually to the eldest son, sometimes with little regard to their wishes. Often farmers retire and die on the same day without having thought too much about succession planning. The result is therefore anything but planned. I am aware of countless examples where generational change has been poorly thought out, sometimes leading to the eventual sale of the farm or worse still, division within families.

My Nuffield study sought to identify potential solutions to the barriers which prevent the younger generation being given an active role in the ownership and management of family farming businesses. I owe sincere thanks to the Nuffield Farming Scholarships Trust which recognised some ability in me and saw fit to award me a Scholarship. Thanks are also owed to the Thomas Henry Trust and its Trustees for providing the financial resource to fund my study. I hope the findings help contribute to the restructuring of family farms in Northern Ireland to help diversify and strengthen the rural economy.

3. Background to study

The simplest way for parents to assist one of their children to farm would be to give all their assets to one offspring and forget about the rest. However this won't provide for the parents' retirement or their desire to give something to all their children. The most equitable manner to treat the next generation would be for parents to sell the farm to support them in retirement, splitting any remaining proceeds equally between all of their children. Due to the current level of investment needed to farm in the UK because of the cost of land, machinery, et al., the reality is that without inherited assets there would be no second generation of farmers.

As parents we all want the best for our children and aim to do what we can to make their way easier if we are able to. During my Nuffield study the key thing I observed was that the people who managed the transition to the next generation most successfully, were those parents whose main focus was to maintain good relationships within their family. The long term success of their business was, at best, a secondary priority.

The reality is that some form of transfer from one generation of most farming families is envisaged. Having seen the difficulties faced by many new farming entrants to get a foot on the ladder of farm management and ultimately ownership, I sought to identify ways to ease the path for the next generation, as one aspect to improving the capacity to manage change within family farms.

I have also seen locally the problems which can arise when generational change has been mismanaged. There are numerous cases across Northern Ireland where poor planning and ambiguity has led to family fallout and sometimes the sale of the farm itself, because of intractable hostility between individuals.

All too often there is little communication between family members about what will happen in the business in the medium or long term. Individuals may make assumptions that turn out very differently in reality, because they have not discussed the issues with others around them. Many families have good relationships on a personal level but when it comes to organising the business the sparks can begin to fly. This is indicative of the younger generation seeking to get some responsibility for decision making, while the older generation try to hold onto their authority. Also, disputes between siblings who farm together can arise particularly once in-laws arrive on the scene.

Often there is no strategic plan for family farms and a lot of frantic head scratching only takes place in a hurry when the neighbouring farm appears for sale in the local paper. A similar situation can arise if a farm family member dies suddenly, with an out dated will or, worse still, no will at all.

I believe that other countries are better equipped than the UK to address the issue of generational change within family farms. I hoped by visiting Australia and New Zealand who appeared to be more developed in this field, I would be able to identify measures that could be adapted to UK conditions. My visit to China was somewhat opportunistic, offering the chance to visit a fascinating country at an interesting juncture, with the safety of joining several of my 2011 UK Nuffield peers. However, unless we adopt a one child policy or have strict controls with the UK government owning all land, China offered little with regard to succession planning. Training and education on the other hand, provided a lot of food for thought.

I felt there were two distinct aspects to my chosen subject.

- **Firstly**, the issue of succession planning itself, to identify a willing "victim" by consensus and ensure an orderly transfer of assets and responsibility to the next generation, securing the long term future of the business, as well as allowing the older generation to step back and take things easier.

- **The second aspect** identified was the ability of the new generation to manage the business after implementation of the succession, and to plan strategically for its development or diversification.

It seemed to me there was little point in successfully handing over the reins to the heir apparent, if they were inadequately prepared in terms of their maturity or management capacity.

I was particularly interested to look at the issue of up-skilling farm managers who felt they had "finished" their formal agricultural training. In the UK too many young people complete agricultural training which is focused on competence in practical production agriculture, but they have only limited experience in the "big picture" stuff

PART A : SUCCESSION PLANNING

4. Why undertake succession planning at all?

For centuries there was pressure on landowners to produce a son and heir to carry on managing the family estate. This was perhaps most apparent among kings and the landed gentry.

Today there is similar pressure on farming families, not to produce a son but a successor to continue the business. We might ask the question: why is agriculture different to any other business? How much research is undertaken to establish the situation around managing the transfer of a corner shop to the son or daughter of the proprietors? How is farming so different?

Part of the explanation is because family members tend to have an affinity to the land their family farms. Any succession of this asset is directly tied to the emotions, feelings, thoughts, attitudes, traditions, and beliefs of all the people who combine to make up the family circle. This even includes family members who may have no financial connections to the outcome, such as siblings of the successor/s. The process would be much easier if the farm and the family could be treated in isolation, the reality is that they tend to blur into one entity.

In order to consider the issues around succession or bloodline planning, I examined the current situation in the UK generally and more specifically Northern Ireland. With virtually 100% owner occupied farms in my region and the vast majority run as family businesses, I was anecdotally aware of numerous cases of poorly implemented succession transfers. Farm size tends to limit the ability of farm owners to undertake business management training, with a minimal use of farm consultants. The structure is significantly different in Great Britain with larger farm size and a higher proportion of corporate and tenant farms. There is much greater use of outside consultants to provide management advice. However there is also a second tier of more traditional family farm businesses, both owner occupied and tenanted, that show similar weaknesses to those in Northern Ireland.

The Republic of Ireland has a similar structure to Northern Ireland, with the vast majority being family farms. They have likewise also had a problem with small farm size and issues around succession. This has previously been identified at a national level, which resulted in a Farm Retirement Scheme (Appendix 1). This was meant to assist with the consolidation of several smaller farms run by farmers of retirement age into one larger, more viable unit, to be run by a younger farmer. Payments were made to the retiring farmers to allow them to retire with dignity and receive a fair standard of living. There were strict rules around the eligibility of the participants as well as prohibiting the retirees from undertaking any work, paid or otherwise, in the new unit. In reality however, it was common for retirees to continue to undertake work for the new business, and the financial inducements simply hastened what was going to happen anyway. This could still, however, be viewed as a positive outcome, if not an efficient use of taxpayers' money.

I spent several years when I was technically a young farmer (under the age of forty, as defined by the European Commission), representing the interests of over one million EU younger farmers. This culminated with a four year spell serving as Senior Vice President of Conseil Europeen des Jeunes Agriculteurs (CEJA), from 1999 – 2003. During this time I was afforded the opportunity to see many of the systems of farm succession across the European Union, both positive and negative.

For as long as I can remember the average age of farmers has been increasing, perhaps now having crossed the sixty years threshold in the UK. Also for as long as I can remember, there has been the cry that we need more young people coming into the industry to provide the enthusiasm and entrepreneurship to drive the sector forward and meet the challenges of the future. Figures from the 2011 agricultural survey from Eurostat, the statistical agency of the European Commission, show that the average number of farmers under 35 years old, as head of a business, was 6% across the whole of the European Union. The figures for the same year were 2.8% for the United Kingdom, 6.9% in the Republic of Ireland and 9.1% in Finland.

In Northern Ireland little has been done to reverse this aging trend, despite a small number who are creating share farming arrangements, or new farm business structures. The greatest encouragement for young people who want to farm would be an agricultural industry which is profitable, without subsidy, and has the respect of wider society.

Given that we don't live in Utopia, the single biggest barrier to new entrants is access to land. The sad truth is that if you are not going to inherit a farm from a previous generation, it will be an uphill struggle. With huge inflation in agricultural land values and low levels of return on capital invested the problem has increased significantly over the last 40 years.

Having spent a number of years trying to improve the situation for young farmers across the EU, I also played a role in lobbying for similar measures in Northern Ireland, to assist the passage of younger farmers into positions of farm ownership and management. Led by the Young Farmers Clubs of Ulster and supported by the Ulster Farmers Union and other industry organisations, this encouraged then Agriculture Minister Brid Rodgers to commission a study to identify whether public funds would be more efficiently spent on a retirement scheme for older farmers, or to assist new entrants. The result of the consultant's report was that a new entrant's scheme would be preferable. Under the terms of the Programme, the New Entrants Scheme paid young farmers under 40 years of age up to £17,000 of interest subsidy, over a five-year period, on loans for capital investment. It closed for applications in 2009 having assisted over one hundred young farmers. While useful to those who receive financial assistance, such programmes don't however deal with the real issues around intergenerational change. They simply offer a financial incentive but don't provide the complete package to manage the family relationships.

I hoped my study would allow me to get a better grasp of the issues below the surface and identify ways to deal with this thorny issue.

5. Common farm business structures

Agricultural businesses around the world are operated under a range of very different structures.

None of these will be suitable in every situation and will vary according to the family dynamics, the scale of the business operation and the legal and taxation regulations pertaining to the particular jurisdiction. New Zealand for example has no capital gains or inheritance taxes. This provides a much more flexible system with regard to land transfers and trading, providing greater opportunity for younger farmers to purchase or inherit land. The prevailing norm for transfer of assets will also vary according to the attitude of a particular agricultural industry. In China, the government owns all land and it has to be rented by the farmers, who may work with other family members in the business.

5.1 Sole traders

The most straightforward format is for a farm to be owned and run by a single individual as a sole trader, without the involvement of other members of the family. This greatly facilitates easy decision making without needing to consult with other business partners. The weakness on the other hand is the inability to share responsibility or bounce ideas off someone else.

The majority view among Australian farmers is "that every monkey should swing by his own tail". In other words, it is preferable that each farm operates as an independent unit without obligation to others. The reality is of course somewhat different.

5.2 Partnerships

Family partnerships are probably the most common structure in developed agricultural economies. At their simplest they will be between a husband and wife. However, once children arrive and reach a stage where they may wish to enter the business, complications can occur. These intergenerational partnerships become further complicated when the children marry and in-laws become involved in the dynamics.

There are also many partnerships where siblings begin farming together, or inherit the business at a young age, following the sudden death of parents. This can work well, but again becomes complicated once partners and children arrive, exerting many additional pressures. The resulting separation process can be difficult to manage, particularly if investment in facilities, such as buildings, has been concentrated in one location.

5.3 Limited companies

Farm families may operate their business under a company structure, particularly if they are large in size or very diverse. This provides a well understood model for management and may have non-family members employed who can also have decision making responsibility. There may be tax advantages to adopting such a format, for example where corporation tax is at a lower level than rates for personal taxation. In terms of transferring business assets this can offer a straightforward solution. All of the assets can be owned by the company, including land, machinery, livestock, production quotas or water extraction rights. The only thing that passes from one generation to the next is the shareholding in the business. This ensures continuation of the business with little disruption through separation of business and personal affairs. While good in theory, even here personal issues can still have a negative impact on the company.

5.4 Corporate farms

Corporate farms are playing an increasing role in global agriculture with huge international farm businesses common in the United States, Eastern Europe and several countries of South America. These have company structures with many shareholders deriving financial benefit through dividends. Such businesses really fall outside the scope of my study because of the nature of their ownership.

5.5 Summary

I sought to consider the issues of farm business transfer for farming families, bearing in mind that they operate under a range of the different structures previously identified.

While each of the business types mentioned have their own management structures, even modest family farm businesses can adopt some of the features of big business to improve their operational efficiency.

For example, within a partnership it is possible to create a structure with a board of management. This can benefit the decision making process and provide a forum for family members to express their opinion, as well as learn about the business. The board can also be used to hold individuals accountable for the decisions they make. The addition of an independent Chairman can ensure all members' views are treated equally, while the inclusion of non executive directors can enhance the skill set of the board, particularly in relation to financial matters.

Such a formal setting with regular scheduled meetings, agenda and minutes, forces people to think about the impact of their actions. The strategic planning ability of the business is greatly enhanced with such a structure, and successors can become involved at an early age, even as observers while still in education. This can help to condition them and improve their understanding of the business, allowing them time to determine whether they really want to spend their life in the family farming enterprise.

6. Transfer of assets and responsibility

The important thing to state at the outset is that every farming family is different. No two businesses are identical and even less so the individuals involved in them. Everyone has different wishes and feelings with regard to their lives, and how they relate to those around them.

Most of those in control of family farms are over 55 years old. These people have been round the block a few times during their careers and have amassed a wealth of experience and knowledge. This is a huge resource for any successor if they are able to access it. Often the older generation has grown with a business and into the role of managing a large scale operation. The next generation will be unable to acquire this knowledge as the business develops, finding themselves dropped in at the deep end without the same opportunity to have time to grow their skills. They suddenly find themselves floundering trying to manage finances, staff and market fluctuations. In many cases they lack the qualities to lead and motivate staff or deal with complex financial planning. Often they have been focused on the practical aspects of the business while their parents had a tight control over financial matters, strategic planning and business development. The parents may not even be aware of the difficulty they are helping to create, or how they can possibly pass on their knowledge, gained over a lifetime.

6.1 The Oldies' perspective

It is a reality that we now have an older generation who live longer, so there is a risk that in many cases succession will happen later. However, it is also more likely that this new grey generation will want to take things more easily and retire. In times past it seemed that farmers assumed they were going to live forever.

People who have spent a lifetime in farming have invariably worked hard to build up a business from scratch, or developed one which they inherited. They will often expect their successors to work under the same conditions and endure similar hardships. How they came into the industry will have a huge bearing on their view of how they see the business going forward.

Those who have started with nothing to build up a successful farming business will tend to fall into two categories with regard to how they see succession. The first group will push their children to be completely independent and to make their own way in the world. I found this to be quite common in both Australia and New Zealand, particularly the North Island. When it comes time for the older generation to retire they are likely to sell their business, but not necessarily to their children. They may however provide their offspring with a financial "leg up" to boost their situation either at the point the parents retire, or on their death.

The second category is parents who seek to hand their business on to their children because they don't want them to endure the same difficulties they faced themselves. There is also a recognition that times have changed and the opportunity to be able to establish a new business may be greatly reduced, depending on where you farm.

Parents often have the view that their children should want nothing else but to come home to the family farm with them. There are many cases where children came into farming only because of the pressure applied by their parents and the fact they didn't want to let them down by revealing they really wished to pursue another career.

A retired extension officer with the Department of Primary Industry in New South Wales related one situation where a father who started with nothing, had built up one of the largest and most successful farm businesses in the area. He had a son who had worked on the farm for around fifteen years. One day, the father announced that he intended to retire and hand everything he had built up, over to his son. The response was not what he expected; the son stated that actually he didn't want to spend the rest of his life farming, instead he wanted to become a cabinet maker. For years after the father struggled to accept the situation and couldn't understand how his son could "do that to him".

6.2 The frustration of youth

Often the older generation try to hold on to the reins for far too long, particularly if they didn't take over as head of the farm business at a young age. Everyone wants their time in the sun. Young people can look around at their peers and see them getting ahead in other employment fields, being given considerable responsibility and salaries, while they remain the general dogsbody on the farm. Coupled with the continual dismissal of their suggestions of ways to improve the operation of the farm, this may lead to a build-up of anger and frustration. Of course we all mature at different stages in our lives and it may often be sensible for the parents to try to moderate the impetuousness of youth. However, many young people work on the family farm uncertain whether they will ever be given any responsibility, or what the timescale for that may be. In times of change young farmers are much more adaptable and willing to adopt new techniques or technology. Research bears this out as farmers become more stuck in their ways as they age. It is often said that if you haven't been successful by the time you are forty, then it will never happen. Failure to give responsibility to the younger generation has a detrimental effect on the ability of a family farm to adapt and maintain its competitive edge. This creates a significant challenge to improve the development and efficiency of the whole agricultural industry, unless this position is reversed.

The problems mentioned above are mainly the result of a lack of communication within the farming family. I observed a culture of greater openness and discussion around the subject of succession planning in both Australia and New Zealand. It was common for parents to sit all of their children down together to talk through the issues as they saw them and how they saw things developing for the business in the future. This often started when the children were young and created a forum for them to express their views as to what their hopes were for the future. The parents saw it as vital to involve non farming siblings in the discussion so there were no surprises down the line, or disappointments if the farm assets weren't transferred equally to all children.

During my study, situations were observed where animosity had developed between non farming children and their siblings, who appeared to hit the jackpot by being given the majority of the farming assets. Families that involved all children in discussions about the finances of the business tended to avoid such difficulties. When it is clear that the brother or sister who inherits the family silver was also taking on a significant level of debt, what initially appears as "copping the lot" becomes much less attractive. The result of such an open, two way discussion means that there is no uncertainty about what everyone wants from their life and the aspirations that all parties have. It gets everything out in the open and removes the potential for confusion or misunderstanding. Of course individuals don't always have the same goals and some degree of compromise may be necessary. The most successful succession plans are based on consensus, where all individuals agree to the aims of the process and the role that they will play.

Generally, there is a more pragmatic approach to the issue of succession planning in Australia and New Zealand, both with high proportions of family farms and forthright expression of views. There also tends to be a culture of much greater mobility and fewer emotional ties to a particular farm or piece of land, than in the UK. The fact that a higher proportion of the total agricultural land is traded on a regular basis helps to facilitate this mobility - although you could have an argument as to whether this is the cause or the effect. The result is that it is common for a farmer, several times during his farming career, to sell one farm and move to another.

6.3 The tipping point

Most, though not all, families will reach a point of realisation where they weigh up the benefits and disadvantages of dealing with succession.

There appear to be common issues that push families to address the issue:

- The parents not knowing what to do but wanting to take a back seat
- The children (successor/s) not knowing when something is going to happen

A New Zealander I met said that if you think of average life expectancy as 70 years, a fifty year old farmer has about 7,300 days of his life remaining. It appears easier to keep delaying the issues which are perceived as not urgent and get on with the really important things. One of those days will be occupied with dying, after which you have no more days to get things sorted. The old adage about farming as if you are going to live forever and working like you may die tomorrow, seems very apt.

Farmers tend to work according to a seasonal cycle, with the result that they delay dealing with difficult decisions which don't have a seasonal deadline. There always appear to be more pressing issues, such as drilling a crop of wheat or lambing sheep. Eventually there is a realisation that something needs to be done to address the issue, despite the perception it is a difficult subject to tackle. This often only occurs when individuals accept the risks of doing nothing are greater than the benefits, with regards to their business and personal relationships. Though for some the penny never drops.

Benefits of acting

- Family unity and happiness
- Continuity of family success
- In control of managing change
- Doing what you want to when you want to
- Open communication with family members
- Expectations are real
- Building on each other's strengths
- Involvement and being valued for your contribution
- Establish disciplines to monitor and revise plans
- Flexibility to change course as circumstances change

Risks of not Acting-

- Nothing is done and stress builds up
- Parents feel unable to retire

- Dysfunctional family relationships – conflict
- Irreconcilable differences leading to family break-up
- Resentment
- Frustration
- Misunderstanding between individuals
- Breakdown of management process and loss of the business

6.4 History repeating itself

Once individuals come to a decision that they need to address the issue, the next problem is how.

If their only experience of succession planning is the process that they went through with their own parents, there is a fair chance it wasn't well planned or implemented. I observed that history tends to repeat itself within families. Depending whether the process was well implemented or not, if all things are equal the same process, good or bad, will be repeated with the next generation. The challenge is to break the cycle where generational transfer was poorly implemented in the past.

Once individuals come to a decision that they need to address the issue, the next problem is how. Few families will have the ability to address all aspects of succession planning effectively. Having identified that they need to do the right thing, they must now work out how to do the thing right.

6.5 Getting help

There are a few "trusted" professional advisors that most farm families come into contact with. Often these may be the first port of call to get advice regarding a transfer of assets and responsibility. It was highlighted by several people I met that accountants and solicitors have formal knowledge in their particular discipline but usually aren't experienced enough to provide advice regarding the personal issues within families. Some people level criticism at these professionals, fearing they may act in their own interest, sometimes to the detriment of their clients.

It is relatively common in Canada, the United States and Australia for Family Business Centres to operate, usually in association with universities. These provide advice and are aimed at all family businesses and not specifically agriculture. However, such centres have now begun to offer more assistance to farm businesses regarding transfer to the next generation. Usually the first issue that needs to be addressed is to create awareness within the farm family around the human factor. This component brings much greater complexity to the discussion rather than the purely business issues which need to be solved.

At one extreme there are a small number of farm families who already have good communications about complex issues, understanding the needs of others and seldom having a disagreement. In general, though, most farmers have difficulty in openly expressing their emotions and feelings. This is a major hurdle which needs to be addressed so they can articulate concerns about the ability of their children to run the business, or understand the needs of their children. A mother of a farming family who attended a succession planning session, said that frequently she felt trapped between her son and her husband. Former dairy farmer, Richard Cressman from Ontario also speaks about the " Mother in the middle". Once a son starts to work alongside the father on the family farm, he will ask him to help out with a particular job. Often the offspring believes he has a better way of completing the task but the father rejects his suggestion. The next time the father asks he tells the son that he needs to do a better job this time. Before long, the only communication between the two is at shouting level.

All the time both the father and son are confiding their complaints of each other to the mother. This will continue with the mother trying to perform as an arbitrator, although placed in an impossible situation. If this is the result of trying to carry out relatively simple daily tasks, imagine the difficulty trying to discuss a subject like succession planning.

Then add in the complexities of other family members and it can appear impossible to successfully find a way through the minefield of planning a generational change. This reinforces that communication is the biggest challenge within rural families.

7.0 The role of independent facilitation

Few families possess all the skills needed to complete such a process and it is common in Australia and New Zealand to engage the skills of an external facilitator to assist them. Sometimes the process can still break down due to the level of animosity that may exist within the client family, or the diverse range of understanding among participants to grasp the issues. Emotions tend to run very high during discussions and it is essential to be able to harness the positive energy that exists, to find an agreed way forward. On occasions a compromise might offer the only solution if there is any possibility that the process will be concluded successfully.

I met a number of facilitators who work as independent consultants, or as part of a commercial organisation, such as a bank. Typically they have a business background with additional training in facilitation and mediation.

It is common for financial institutions, such as Rabobank or the National Bank in New Zealand, to have facilitators within their company structure. Again, this is something which might be considered in the UK. While the above banks provide this service for their customers, they also deal with other clients who have been referred by accountants and solicitors, lacking the necessary skills, or simply don't have the time to address the issue. Participants pay for the service they receive and usually see it as an investment in both their business and family.

Families should not consider themselves as failures or feel any shame in needing to involve outside help to assist them through the development of a succession plan and its implementation. Again, this is part of the culture of openness within the agricultural sector of the countries I visited. Facilitators were more often asked to become involved by parents wanting to develop a succession strategy, but also, less frequently, the younger generation engage their services when they feel frustrated that they don't know what the parents' intentions are.

The facilitators I encountered generally followed a similar system of assessing the current family dynamics and understanding the farm business, before working with them to produce a step by step plan to reach the desired aims.

The ideal in every situation is that at the end of the process every family member is on good terms with all the others, and all are completely satisfied with their share.

The sad reality is, that even with a mediated process, there may be some dissatisfaction among a proportion of the participants. Key to achieving a positive outcome is that all family members buy into the process and, by forgoing something at a personal level, are contributing to the ongoing success of the whole family and its business interests. The challenge can be to get this concept accepted by all parties.

7.1 Coach Approach

Operating in both North and South Islands of New Zealand, Coach Approach is an independent succession planning facilitation service for farming families. It had its origins in National Bank but, now independent, receives referrals from this and other banks, as well as through promotion of its services.

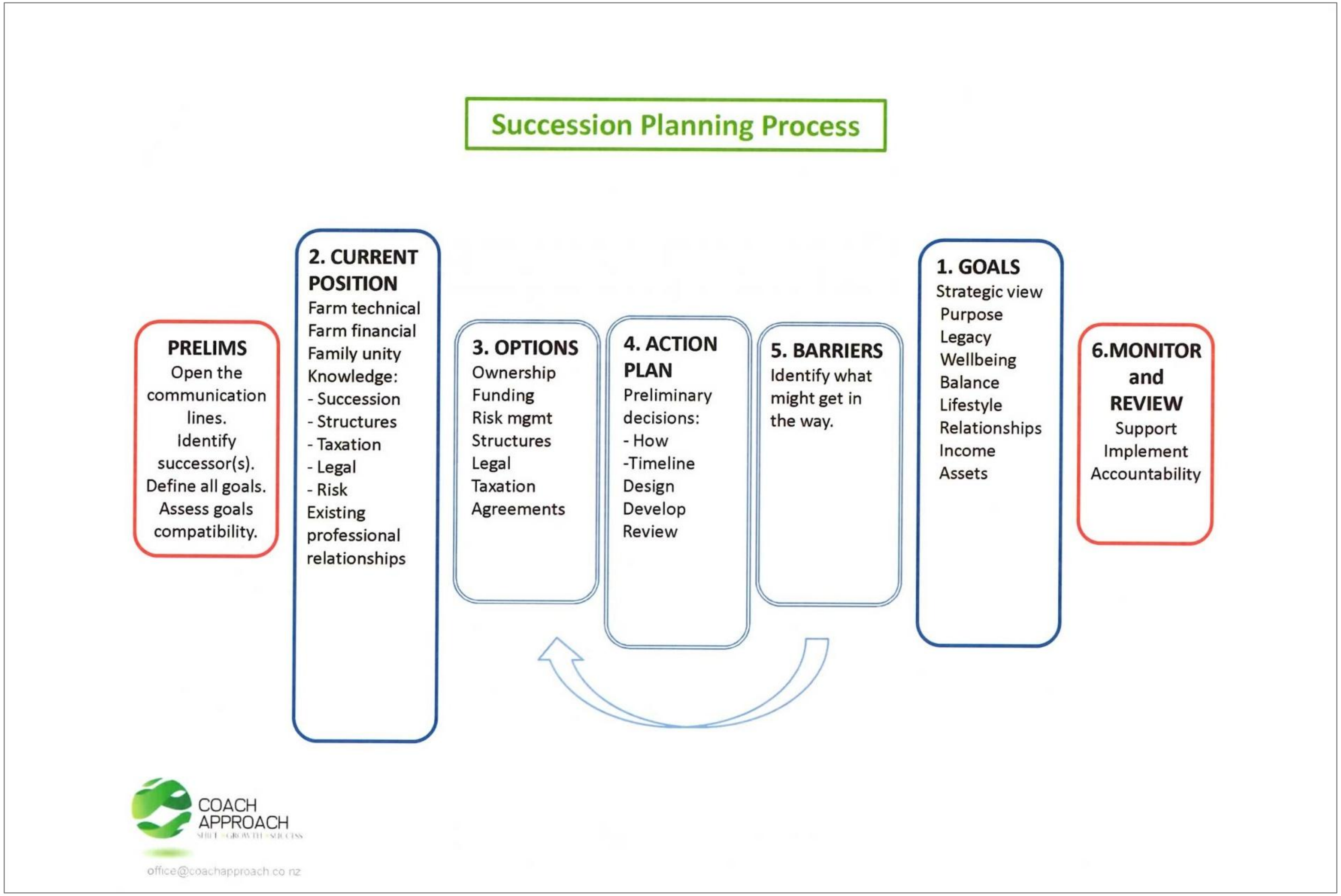
Given the perception of the direct approach to most issues in NZ agriculture, I found it surprising that many of the same problems existed with regard to transfer of farm businesses and assets as in Northern Ireland. The structure is mainly: family farm/owner occupier.

However, there are significant differences between the various farming sectors regarding succession planning. The beef and sheep sectors had endured a long period of relatively low levels of profitability. The reality was that many farm businesses were not generating sufficient returns to permit the parents to retire with a reasonable income and standard of living, at the same time as remaining viable for the next generation. Often the family farm needed to be sold to permit the parents to retire with some degree of dignity. The children then had to find employment or develop their own business with little or no help from Mum and Dad. This was perhaps not the desired outcome but the only practical option.

The New Zealand dairy sector has of course developed a recognised pathway for progression with the younger generation entering at the bottom as a contract milker, working their way through as lower and higher order share milkers, before eventually purchasing a farm in their own right. The rate and extent of development in the dairy sector means that many family owned dairy farms are now significant in the scale of their business, often running multiple farms. The very nature of these large dairy businesses can provide the opportunity for successors to take over one or more of these units as viable businesses in their own right. The parents can still sell off a proportion of the assets to fund their retirement.

The process varies with each facilitator but Table 1 shows the process used by Coach Approach in New Zealand, to identify and implement a suitable succession strategy. The process begins with an introductory session which explains the process to the participants. This is followed by working out what the aims of the whole process should be. This might seem a little back to front, but if you don't know where you are going any road will take you. Once you know what you want to achieve and have clarified the current situation, the plan must identify how best to make the journey. Depending on the timescale and the age of the parents, this may mean expanding the scale of the farming operation to raise the funds necessary for the parents to retire comfortably and other siblings to be provided for.

See Table 1 on next page : Coach Approach blueprint for succession planning



Coach Approach blueprint for succession planning

7.2 ProAgtive

ProAGtive provide a succession planning service as well as business management training for farm families in Australia. An independent consultancy business, the principals have a background in finance and law as well as mediation training and counselling.

Their general approach is similar to that of other succession planning advisors.

They look at the situation of each of the participants in the farming family and have identified the common issues raised by clients going through the process. At the initial meeting with family members ProAgtive will ask a number of very direct questions to determine the situation of each person as shown below:

As a **business owner** the following questions are typically what you need to have clarity around. When working with a facilitator these are the questions which are addressed in the succession planning process:

- Have you made provision for what will happen when you are no longer engaged in full time farming?
- What have you built your business for?
- Are you clear what will happen if something happens to you?
- Are you clear about how your on-farm children will be treated?
- Are you clear about how your off-farm children will be treated?
- Have your children got all the skills and knowledge your business requires to continue if you are not in the business?
- Do you understand the implications of your current business structure?
- Do you believe all your assets are protected in the event of death, disability, litigation, or divorce?
- Does your current Will reflect your wishes if something were to happen to you tomorrow?
- Would your family business be able to continue to trade if you or your wife died? (as funds can often be frozen as part of probate).
- Do you know how to structure your business in the short and long term to minimise tax?
- Do you know what the strengths and weaknesses are in your business to be more profitable? i.e. what are the profit drivers?

Does everybody in your family business have clarity and direction for their future?

Have you and your partner discussed what your purpose will be in your retiring years and how it will be funded? – independent or out of the business?

What are your expectations if one of your children transitions into the business? e.g. a degree, gained relevant experience, are injecting capital into the business.

Business Owner e.g. father – concerns, needs and aspirations

What am I going to do if I can't work any more? The farm has been my life's work, my hobby, that's all I've done.

I'm scared about getting old – I want to keep doing what I am doing until I can't.

I know I have to face change and let go but how am I going to do it?

My wife wants to do other things, I'm not sure I want to.

What's going to happen when I go? I want to know that everyone is going to be happy.

I can feel I am getting older, it doesn't feel good and having a "use-by" date scares me.

Business Owner – e.g. mother – concerns, needs and aspirations

I want to spend some "special" time with family, friends and grandchildren and maybe travel

I want family harmony

I want to be fair to all my children

I want to be able to live where I choose for as long as I like

I want to be financially secure and not dependent on the ups and downs of the farm.

Generation on farm – concerns, needs and aspirations

When are we going to be able to make some decisions, we need to be in control of our own destiny

We need clarity and direction about the future.

We've got some great ideas and we'd like to try them out.

What does our future hold, what can we offer our partners?

How will we support a future family?

What are our parents going to do and how will they be funded?

Will everyone own a share of the farm and will we have to buy out any siblings?

Who is going to be boss when Dad hands over?

What are our roles and responsibilities?

Generation off farm – concerns, needs and aspirations

Just because I am not working on the farm will anything be mine?

They are all so stressed, what can I do about it?

What happens as Mum and Dad age – is their future secure?

I feel I am entitled to something, is that how everyone else sees it?

In-laws or partners on farm – concerns, needs and aspirations

No one else is working as hard or as long hours as my partner, is that fair?

Is the business going to be able to afford to provide a payout for off farm family members?

Can the business afford to provide housing for all?

We are not going to be able to survive on this salary for ever.

Is the business going to be capable of paying for our children's education?

What happens to me if something happens to my partner?

ProAgtive facilitators have identified that one of the greatest barriers to drawing up a succession plan based on consensus of all family members, is the legal profession. This was somewhat surprising, given the facilitator's background and legal training.

However it does make sense when I think through the process. The parents will have their own solicitor who would be able to advise them during succession planning. However, it would be difficult for the same legal professionals to act on behalf of other family members, as they should always act in the best interest of their client. Different family members will have conflicting interests even in the most amicable situations, and families could spend huge sums of money if a purely legal route was followed, with each person engaging their own legal representation.

The other aspect regarding difficulty presented by the legal profession was that they sometimes acted to serve their own interest, rather than that of the clients. This was particularly the case where solicitors acted as executors or administrators of estates belonging to the older generation within a family farm. It would not be in their interest with regard to the level of fees they may receive, if the family undertook an agreed course of action to implement a succession plan, with transfer of assets long before death.

However, more pragmatic legal professionals saw the merit in providing the legal opinion and relevant services to assist a farming family through the process and retain them as clients in the longer term.

7.3 Rabobank

In New Zealand, Rabobank have a significant banking presence with a proportion of the agricultural business.

They have a number of succession planning specialists throughout both islands, who will provide their services to bank customers and farm families referred by other professional advisors, who don't have the time or skills to deal with the issue.

Using a similar approach, they value the fact that they often have little knowledge of the affairs of the family they are dealing with, as they are not directly involved in business banking. This allows them to facilitate the process in a completely independent and unbiased manner. They will not have any "baggage" with regard to members of the client family and find people are likely to be much more candid with a complete stranger.

If the process fails through inability to reach a consensus and relationships break down completely, an independent facilitator can walk away from the process without impacting on other relationships with bank staff.

Key issues in the process begin with a preliminary discussion about the family tree to identify those individuals who should be involved. They will consider longevity within the family to identify if there could be a potential history relating to health or premature death. This may affect the timescale of any succession process.

Each participant is asked where they see themselves in 5 years, 10 years and perhaps 20 years time. They are also asked to consider the point of view of other people in the family, as this can be a way of diffusing potential problems at an early stage.

The facilitator will discuss the current position with regard to assets using the balance sheet, and the profit and loss account. The discussion around assets and liabilities is important as often some family members may be aware of the assets but aren't aware of the level of indebtedness and may have an inaccurate view of "wealth". Perception and reality can be two very different things. The level of profitability is important in determining the capacity to generate money for income, or to repay debt. It is important to identify any unpaid liabilities to prevent problems at a later stage. For example, a son who has worked on the family farm for fifteen years receiving only a low wage, is entitled to be paid in full to make up the shortfall with the average wage over the period. This could be settled as a cash sum or as part of an allocation of assets during the process.

It is better to deal with the issue of succession at an early stage to harness positive energy and before relationships deteriorate beyond the point of no return.

ANGRY + HAPPY = ENERGISING EMOTIONS

SCARED + SAD = DE-ENERGISING EMOTIONS

If succession planning is ignored or unduly delayed, participants will become frustrated and relationships are more likely to break down. Once this happens it may be impossible to salvage the situation to reach an amicable outcome by agreement.

In-laws can be assets or liabilities to the process, depending on what their position is. The facilitator needs to identify potential sources of friction and attempt to diffuse them at an early stage of the process. Often a daughter-in-law comes into the family and sees the bigger picture. For example, she may be aware of friction between her husband and father-in-law and can have a very positive part to play in helping to find a positive solution, as it improves the long term position of she and her husband. Equally, the opposite can occur when a daughter-in-law, for example, believes her husband is getting a raw deal compared to other family members. This can be divisive and sour the relationships.

Targets are better set by putting a number on them rather than an arbitrary timescale. Better to say “I want to be in this position by the time I am 55” rather than “in 3 or 5 years’ time”, as timescales like that are much more likely to slip by unnoticed.

The main drivers in the process are time and cash - How much gold will I need for my golden years?

Other professionals such as accountants and solicitors can come in at a later stage and add value, such as carry out land transfer. The process should aim to develop a culture of family business, but the leadership and organisation will determine the outcome more than any other.

8.0 Case studies of succession planning

8.1 Dairy farming business in Australia

Family members:

Father	
Mother	
Son 1	23 years old
Son 2	20 years old
Son 3	16 years old
Daughter	9 years old

Business: Milking 900 dairy cows across three farms

Both parents came from farming families but the family farms had been sold, so they started with no assets. Father was a contract shearer for a number of years but got involved in dairy farming about 15 years ago. Mother is a part time health professional and advocate for the rural population. They got involved in dairy farming as the result of a farm coming up for sale, and not wanting to work for someone else. They currently employ a manager for each of the farms, as well as milking staff who are often overseas students.

The father oversees management on a daily basis, while a consultant provides practical management advice, as well as some business planning advice. There is a monthly farm walk and meeting rotating around the farms and involving the parents, the three farm managers and the consultant.

It is as yet unclear whether any of the children will wish to farm.

The oldest son has just got married and works off farm. The second son is at university studying entomology but shows the greatest inclination to farm, working on a neighbouring 1,500 cow dairy farm during holidays and weekends, as well as taking over the manager's role during his time off. He is responsible for livestock and staff during these periods. The third son and the daughter are still at school.

The parents have tried to involve the three sons to date in the decision making process of the business by forming a family board. They discuss all the issues around the business to try to create an understanding of finance and management. The hope would be that the children will begin to understand how a business operates and that Mum and Dad are not simply a bottomless money pit. At some point if any of the children wish to become involved in the business, they must bring a business plan to the board for consideration. This may be to take over one of the dairy units.

8.2 Livestock and arable farm, South Australia

Family members:

Father	
Mother	
Son 1	lives in the city
Son 2	married, 2 children, wife does farm administration and accounts.
Son 3	married, 2 children, wife works off farm.

Business: Large scale diversified farm business with sheep, cattle and cropping enterprises.

Four employees, who have some responsibility for operations but are also involved in planning of capital investment. They are encouraged to participate on an equal basis with the owners in business planning meetings.

The parents started with one property purchased with a bank loan. The business has grown to its current size through hard work and good management. A number of years ago the father realised he wasn't getting as much from his staff as he wanted. Eventually he changed his style of management to become less of a micro manager and permit employees to assume some of the operational responsibility. At that time he established a board for the business chaired by an independent person who was respected by all family members. The accountant to the business also sits on the board to provide additional skills and the bank manager sits in on corporate board meetings as an observer. During more challenging times this has proved beneficial as the bank are kept fully informed of the situation.

All the sons have a seat on the board, although the oldest son lives in Sydney and isn't involved in the daily operation of the business. The parents would like to retire, but after a period of expansion want to consolidate the business by selling off non cropping land to reduce debt. The aim is to structure the assets for each of two sons in the business to farm in their own right. However it is foreseen that in the short to medium term there would still be merit in retaining the current board structure. This will provide a "safety net" for the next generation as they find their feet, and a mechanism for them to acquire the necessary management skills.

There is a suggestion to incentivise the staff further that a profit sharing arrangement would be introduced by way of a management company.

Another example is given on the next page

8.3 Livestock breeding business, NZ

Family members:

- Father
- Mother
- Son 1
- Son 2
- Son 3
- Son 4

Business : a traditional cattle and sheep farm run by the parents.

The oldest son completed an agricultural commerce degree and hoped to enter senior management of a rural business. He changed his mind and returned to the farm. The business operated on the original family block of land and a second farm in the area which had been added a number of years before.

In 2001 the eldest son identified the need to do something different to develop the business, if it was to support more than just the parents. The parents pointed out that given the low level of return in the beef and sheep sector over many years, there was no cash reserve to invest. Another member of the wider family who worked in the city, wanted to invest in agriculture. Agreement was reached to sell him the land on the second block and then lease it back to be managed and provide a return for both parties. The equity released was used to establish a sheep breeding programme to produce high performing maternal and terminal sheep lines through composite breeding. The result has been to develop the most intensive sheep breeding programme globally over about 12 years. This has created employment opportunities for family members. A number of years ago the parents wished to step back from the business and the oldest son took over the breeding company.

The parents asked all 4 sons what should happen to the farm. The unanimous view was that it should remain in the family. Each son was provided with a building site, and the youngest son was to take over the farm and buy the others out, with his oldest brother as his equity partner. This was to be done over 10 years at an agreed price and payment schedule. This permitted generation of money over the period to allow this to happen, without creating a huge burden of debt for the youngest son. This was all done by consensus.

However, when one son realised he would no longer be able to shoot ducks over the farm as he always had done, the plan nearly came unstuck.

This demonstrates that even with agreed outcomes which all family members had bought into, problems can arise at the last minute.

8.4 Arable farm, NZ

The farm has been in the family since 1924. The current farmer was 5 when his father died and his mother moved to town with the farm leased for 15 years. There were 5 years from him leaving school until the lease ended and a family friend encouraged him to get a good education and take over the farm. He went to Lincoln University nearby and had a five year cramming session to learn about agriculture. Lincoln taught him the principles of learning which has continued throughout his life.

The parents farmed in partnership on the family farm having raised two sons and a daughter. The daughter works in a bank while both sons work on the farm. Neither son completed formal agricultural training, although the elder son learnt a trade while working in the construction sector.

The farm is comprised of the home farm and a second unit purchased 3 years ago, totalling 540 hectares of light land, which is all irrigated.

It is an arable business trying not to go into dairying - land nearby, producing 10-12 tonnes wheat per hectare is currently being converted to milk production. While milk production would be more profitable neither son wants to milk cows. However, they grow kale and graze 6,500 dairy cows during the winter, as well as producing hay for neighbouring dairy farms. The farm also provides grazing for finishing lambs on short term leys and there is no harm the neighbouring dairy farms see there is an alternative use to dairy cows.

Previously there were 66 paddocks on the property but only 9 now, to simplify management.

The business purchased a sprayer a couple of years ago and one son now has responsibility for all the spraying, having had no previous experience. The father is involved in a seed cleaning business and the sons are gaining experience about this business which is a small co-op.

In 2009 the parents considered what they needed to do to sort things out by way of succession planning and engaged with a facilitator. They had no intention of retiring in the medium term and wanted to create the same opportunity for their children to farm as they had had. The family went through a succession planning process recently using an independent facilitator and valued the independence and leadership provided. The process formalised the conversations about what everyone wanted to do in the future. The strategy has to come before the structure, with the children now owning the strategy. The structure may still need some adjustment until it is right but this is not urgent. The strategy may also be adjusted in future if the situation changes. By remaining active in the business for the foreseeable future the parents will have the opportunity to pass on their knowledge and management experience.

Currently one son and his wife live on the second unit. At some point the business may be broken up to create a separate business for each child. The home property may be split in two with dairy on one half run by contract or share milkers to provide a share for the daughter, with the second son on the other half. The parents value that the family want to work with them in the business.

9. Other potential solutions to farm transfer

Share farming arrangements are also commonplace in the **New Zealand** dairying industry, as part of the well accepted pathway for new entrants to eventually purchase their own farm. More recently, there have been a few cases in **Northern Ireland** where this structure has been implemented in dairy and arable farms. These have been the result of specific issues such as no obvious successor in the immediate family, but is testament to a more flexible approach being adopted by some forward thinking farmers.

In **France** there are a significant number of older farmers seeking to retire who have no clear successor. A system has developed to identify young people entering the industry who do not have a farm to take over, and try to match them with the potential retirees. Usually the young person will work on the farm for a number of years before purchasing the assets of the business. This could be adopted in the UK in conjunction with share farming agreements to fund the transfer of assets to non family members.

In **Holland** there are numerous examples where smaller farms have been merged to provide an economy of scale. For example two dairy farmers were each milking around 80 dairy cows on farms 6 kilometres apart. Each needed to invest in new milking parlours, as well as struggling to find relief milking staff to give them time off. Their solution was to form a legal partnership.

The dairy cows were all transferred to graze one of the units, where investment was made in new milking plant and buildings. The other unit was run to produce winter forage and graze the dairy young stock. Both partners worked in the business sharing the milking responsibility. One partner had welding experience and undertook some work outside the farm during less busy times. The income from this went into the partnership account. The result was that two farms with questionable viability became profitable, allowing the partners an improved standard of living and better work/life balance.

Equity partnerships have become more common place in some areas particularly with the large number of conversions from beef and sheep farms to dairy, especially in **New Zealand** over the last ten years. Typically the conversion will be managed by a professional consultancy. The land will be acquired through the purchase of one or more farms and the investment in the grazing infrastructure and milking facilities completed.

This is usually funded using finance from a number of investors and mainstream banks. However, often a husband and wife who have been share milking will take on the positions of farm manager and calf rearing, for which they receive a salary. This couple will usually have invested their capital in the business as well, which gives an added incentive to maximise profitability of the business. After several years when some of the debt has been repaid to the bank, the business may be sold as a going concern with investors receiving the benefit of any capital appreciation.

In the last few years, when the level of capital growth has slowed in New Zealand, there have been cases where people wanted to sell their equity share to their partner/partners. This is increasingly done through a "shoot out clause". Under this process, each partner places a value on the shares of the business. It is in both their interests to determine the most realistic value for each share. If the figure is too high then one partner will have to pay more to buy the other person out. If the figure is too low in an attempt to get the other person's shares at a bargain price, there is a risk that the bidding partner may actually become the one being bought out.

Hence the name, shoot out clause, because it may not be clear at the start of the process who will end up leaving the partnership.

A Bay of Plenty dairy farmer in **New Zealand** had been running his 170 ha farm for ten years, but with two adult sons and wanting to move to a larger farm, he was torn over which son would be the most worthy successor. He decided to sell the existing farm valued at NZ $4.2 million, and go into a joint venture partnership with both sons on a larger unit. This seemed the fairest way to pass on the family legacy without trying to choose one son over the other. This way the boys each get a foot up the farming ladder, which will enable them to either grow their share milking herds or eventually buy their own farms.

The father believes both boys are excellent farmers and he would trust either of them to take over his unit and run it well. Rather than tossing a coin for one to buy the other out, he believed the fairest way was to sell the existing farm and buy a bigger one which could sustain three herds.

9.1 Providing for non farming children

In Australia and New Zealand there is a desire to assist all children where possible, although there is an acceptance that fair treatment doesn't mean equal treatment. $100,000 in cash is not the same as receiving $100,000 in the value of a farm.

I observed a variety of solutions to provide for children who did not work in the family business. Again this depended on the type and scale of the farming enterprise.

- **Equity allocation**

Some parents may divide their whole farm business into shares, which they then allocate to their children. One offspring may then run the business paying a proportion of the profit back to the other shareholders.

However, for this not to deter the active sibling from developing the business further, it is important that a mechanism exists to ensure that they accumulate any value they have added during their tenure. Typically, for this to happen, the farm needs to be valued at the point when the parents hand over the business. Any increase added after this point is then accumulated solely by the sibling who is actively farming.

Alternatively, parents may decide to transfer a share of the core assets, such as land, to non farming children. This land may then be leased back and farmed by the active sibling. This provides the other children with an income from the land, while maintaining the scale of the farm operation.

Recent research from the University of Melbourne contests that succession planning is the most important feature to the ongoing success of agriculture through business continuation from one generation to the next. There is a suggestion that farming families consider keeping the ownership of land separate from the farming business on that land. This allows family members to be farm owners while not directly involved in the farming activity.

The reality of both these options is that siblings are agreeing to work together for the rest of their lives. Difficulty may arise if one of the siblings wishes to raise equity through sale of the land and their brother or sister who is farming isn't in a position to purchase the asset. Alternatively what happens when the non farming partners wish to provide for their children?

In New Zealand where more families own and operate multiple farm units, there is greater opportunity to transfer separate farm units to non farming siblings. These may then be operated in conjunction with the main farm business or run independently using employed staff.

- **Transfer of off farm property**

Depending on the profit level of the farm, the parents may have been able to invest in off farm property. This could be through buying or developing other businesses, or investing in commercial or residential properties. Sale of these investments has no impact on the core farming operation.

- **Proportion of equity raised by sale of assets**

Farm businesses which have significant scale may be able to sell off a proportion of the assets to raise equity, without affecting the viability of the main farm. This may then be distributed between other children.

- **Other investments tools**

The use of other financial instruments were very uncommon particularly in New Zealand. Within their agricultural community, the use of life insurance policies to provide for non farming children by insuring the parents, was not evident. There appeared to be more of a desire to provide for children while the parents were still alive.

In Australia, on the other hand, it was more common – though not widespread - for parents to have pension policies and financial plans to provide for other children.

All of the above assume there is a viable family farming business going forward, after the process of succession planning has been carried out and settlements reached.

The reality is that this will not always be the case, particularly if the business is more modest in its scale or has been through an extended period of low profitability, whether - for example - as the result of drought or poor management. Limited financial reserves or high borrowings may dictate that the only way the parents will be able to retire is to sell the asset. This might be a harsh reality for some, but it may be the only feasible option.

The same outcome may be required even if the family has already proceeded down the route of trying to find an agreed solution, acceptable to all family members. If the process breaks down irrevocably it may be easier to simply sell up, releasing the equity which can then be apportioned as the parents see fit. This may be a much less attractive option in the UK, given the potential impact of capital gains and inheritance tax.

10. Protecting assets/managing risk

One of the greatest barriers to the transfer of assets from one generation of a farming family to the next, is the risk of losing the asset as a result.

This could occur if the successor embarks on a risky business strategy, particularly through lack of experience. The other more common worry would be that the land or other asset has to be sold as part of a divorce settlement, following the breakdown of the successor's personal relationship.

Given the increase in the value of farming assets, particularly land in the last 40 years, combined with much higher divorce rates, this is a valid concern.

There are prenuptial agreements as a tool, but it doesn't send out a very positive signal at the start of a new union if you are already planning for its demise. As such most people just don't want to go there.

- **Family trusts**

Family trusts can provide extra flexibility with tax planning in the UK. This mechanism can be used can be used to provide a lifetime income for a spouse but with the assets passing to your children, or alternatively to help protect ownership of a family business.

Family trusts were used extensively in New Zealand across all sectors of the economy including agriculture. Farming families established trusts and, to a lesser extent, companies, to protect their farms from claims by creditors, spouses and partners, as well as from testamentary claims. Trusts and companies were seen as providing security against division of assets, maintaining the asset as a viable economic entity and providing for future generations. Recent changes to legislation and case law have rendered trusts less attractive to protecting farm assets in the event of divorce.

- **Preference shares**

One farmer I spoke to runs an extensive hill sheep property in Northern Canterbury.

His grandparents died in quick succession when his father was in his twenties, leaving a very significant death duties liability. The father spent much of his farming career working to repay these debts.

The father and mother farmed in partnership until the son indicated that he wished to return to the family farm. At this point a limited company was formed, with the creation of ordinary and preference shares in the business.

Over time the son acquired the majority shareholding through ownership of all the ordinary shares. His parents retained all of the preference shares which, since the death of the father in 2010, are now owned by the mother. The logic behind this structure was to provide protection for the farming assets in the event of the failure of a marriage. The son, by way of his holding of ordinary shares, could run the business and borrow money against the assets to finance the farming activity.

The parents, now just mother, by holding the preference shares had a controlling interest in the business. As such they could prevent the sale of all or part of the farm to provide a divorce settlement for a departing spouse.

- Mortgage over asset

A recently retired dairy farmer and his wife had just completed their succession plan to bring their son and daughter, who are both married, into the family farming business.

Previously, the son worked on the farm but didn't have a good working relationship with the father and moved off, while the daughter and son in law rented another farm in their own right. The son in law is from a farming family and has several brothers, with no prospect of any farming opportunity within his family.

The parents I met were seeking to retire so engaged the services of a succession planning facilitator.

The round table discussions identified that both children wanted to farm and had similar goals for the family farming business as the parents. The equity of the parents was valued at NZ $12.5 million and included several farms, (this was from a position of negative equity in 1990).

The main business had been sheep production but this had been converted to dairying and dairy support for dry stock, with pivot irrigation installed.

The concern the parents had was about the risk to assets if either of the children divorced. The simple solution was through an interest free loan.

The son and daughter in law bought 134 hectares of a 300 hectare farm from the parents, who still own the remaining 166 hectares. Both blocks are leased to a farming company which owns all the plant, with the son and his wife managing the unit.

The son and his wife purchased their share by way of a NZ $1,000,000 loan from the bank and a NZ $2,000,000 interest free loan from the parents. In the event that the marriage between the son and daughter in law ends, the loan to the parents will become repayable in full. This will also trigger the need to repay the bank loan. The parents can be repaid by return of the asset or in cash raised through the sale of the farm.

If the marriage continues successfully, the debt to the parents will be written off on the death of the second parent, in possibly 30 years' time.

A similar arrangement exists for the daughter and her husband who own a 300 hectare block. Their loan from the bank is NZ $ 1,500,000 and NZ $ 2,000,000 interest free from the parents.

This is a simple but effective means of protecting the core farming assets built up by the parents. The father commented that it may seem cold that the daughter or son in law would walk away with very little. However, they would still be entitled to a share of any growth in the stake they owned with their spouse. This offers a potential solution to protect farm assets following changes in New Zealand law around allocation of property as part of a divorce settlement. However, anyone contemplating this as an option would need to bear in mind the tax implications of using such a mechanism.

11. Conclusions regarding succession planning:

1. Early discussion of the succession issue will encourage family members to consider their position, as well as that of others.
2. Address the issue of generational transfer sooner rather than later.
3. Identify clear, realistic aims for the family and the business in the long term.
4. If some of the next generation are interested in farming, ensure they complete the most relevant education.
5. In order to ensure children have the most appropriate qualifications to manage the farm business, they may need to get experience through off farm employment in another business or sector of the economy.
6. Fair treatment of all family members doesn't mean equal treatment. Some family member may be able to farm but only if others forgo some of their inheritance.
7. Don't force people to do something against their will, or place undue expectation on them.
8. Accept the interests and views of all participants equally, without prejudice.
9. The use of an independent facilitator can help considerably in reaching a successful outcome.
10. There may be some difficult decisions to make and avoiding them may cause more harm than good.
11. The stakes are high.
12. Emotions will have a huge bearing on the process.
13. Opinions vary and everyone has a different view/perception/circumstance.
14. Outcomes and timescales must be realistic.
15. Good communication is key to reaching an amicable solution that suits all parties.
16. Fair treatment doesn't mean equal treatment.
17. Compromise may be required to reach an agreement.

PART B : IMPROVING MANAGEMENT CAPACITY

12. Improving management capacity within family farms

As previously mentioned in the introduction, undertaking and implementing succession planning effectively is only half the task in terms of managing change. Success will be short lived if the next generation are not sufficiently able to manage the business profitably, once they are in the hot seat. It is often forgotten that change in a farming business is a dynamic process. Once it ceases to develop, it will stagnate and become uncompetitive.

A producer of fine wool in Australia has a goal of improving his output by 3% a year. This is through more attention to detail and may not seem particularly adventurous, until we consider that over a ten year period, his output will increase by 35%. However, what we need to focus on are the things that will provide a real step change in the performance of our farm businesses: more efficient ways of farming, a new enterprise, different genetics or use of GM technology, for example.

When I think back to my first economics lesson, I learned the resources of a farming business are Land, Labour and Capital. It depends on the individual business which of these is the limiting factor.

In Northern Ireland land prices are traditionally among the highest in Europe, because "as the man says" they aren't making any more of it. A dairy farmer in Australia told me however, that limitations are only restrictions that we impose on ourselves. His answer to a shortage of land for his 2500 cow farm in South West Victoria, was to move to Chile, where he could have access to enough land for 25,000 cows.

He has five children though only two sons chose to enter the family business. Each completed agricultural degrees, with the younger also completing a business degree. The older son is content to be doing the job but has no real ambition, while his younger sibling has the drive and vision which will develop the business further. Depending on how the parents handled succession planning in this business, they saw that management ability could become the limiting factor to future success.

Traditionally profits, and more recently the commercial banks, have fulfilled the role of providing capital for the further development of farm businesses. Given the current lack of available credit facilities to all businesses, this is much more difficult in the present financial climate. Rural Development Programmes put in place by the European Union, following more recent reforms of the Common Agricultural Policy, have sought to provide funding to strengthen and diversify the rural economy. In my experience, the difficulty in the UK and its regions are that the funds are administered by the public sector, through a set of inflexible regulations. The result is that farmers have to be as agile as a circus monkey to jump through the hoops required to access any financial support. There are numerous examples of projects funded under such Rural Development Programmes that were never going to be feasible businesses but because the application was well written and satisfied the criteria they received financial support. A ”Dragon’s Den” approach in conjunction with investors such as venture capitalists, would perhaps do more to develop the sector and increase the business focus. New Zealand has seen this type of arrangement with many investors getting involved in the dairy sector since 2000, which has largely driven the conversion of farms to dairying. Availability of capital is, I feel ,a whole other Nuffield study!

12.1 Management styles

In the past, right back to the medieval times, it was the norm that the oldest son would take over the farm business. This was often without much regard to his wishes or aspirations, and he could feel in an impossible position, not wishing to disappoint parents. In many cases the business failed in the hands of an unwilling victim, simply because he didn’t have any enthusiasm for the task.

Sandra Salamon undertook significant research looking at farming families in the United States in the 1980s. She concluded that farm families appeared to fall into one of two categories:

- Entrepreneurial
- Yeoman

She observed that those in the entrepreneurial category were very competitive, both between themselves as well as in the business world. These families were motivated by profit. The yeoman family was however much less competitive, with a main focus on ensuring that ownership would pass to the next generation in the family. Interestingly another finding was that families descended from German, Irish and Swedish immigrants to the US regularly fell into the yeoman category, while those of “ “Yankee” origin were mainly entrepreneurial.

Further work in Canada in1998 tested the above theory. The conclusion was that only 25% of the farms studied fitted into the model Salamon developed. The remainder were entered in a new model which classified farming families as “expanders or conservators”. Using this method it became possible to predetermine differences between generations within the same family.

This work highlights some significant implications for individuals planning to work with families in the succession process. It also identifies that people have different management styles. There is the potential for conflict with a conservator father and an expander successor. The father may feel that the successor wants to move too fast. On the other hand, if the father was an expander and the successor exhibits more conservator characteristics, the father may be very hesitant to let the younger generation take control, for fear they might not have the ability and the aggressiveness to keep the farming business afloat. Another point to be aware of is that if there are siblings working together along with the father the human dynamic can change depending upon whether both siblings are conservators, both expanders, or one of each.

In my own case, I opted for a Higher National Diploma in Agriculture, although I also had the option of completing a degree in Agricultural Economics. I believed at the time that the practical skills would be more important. I feel that was true for the first period after I returned to the family farm. However, now I have assumed the management and strategic planning role for the business, perhaps I would have been better prepared had I completed the degree. School careers staff at the time were not sufficiently knowledgeable to be able to advise me of the merits of each, being more focused on academic achievement.

My path into agriculture is typical of many who are trained in production techniques but not necessarily in the management skills needed for a modern farming business. I have spent the last 15 years acquiring management experience through involvement in a range of commercial organisations.

A recently retired dairy farmer I met in New Zealand put things in perspective when he valued his time doing various tasks.

- $20/hour milking, anyone could be employed to do this.
- $100/hour plate measuring grass, more skilled operation about "doing the thing right".
- $1000/hour strategically planning the business, the most important management of the business, which is about "doing the right thing".

His concluding remarks were that the 10% of his time spent on strategic planning was the most valuable to the business, and that this function should always be carried out by the owner.

The conversation bears out the importance of having sufficient ability to see opportunities and exploit them, or in my mind, the capacity to manage change. Much of this ability can be gained through experience, but some aspects are related to the type of individual we are, whether we are risk takers. Some things can be taught, while others have to be intrinsic to the individual.

13. Knowing and not knowing

As stated some things can be taught while others can't. However, farmers who have left formal education are only likely return to more formal learning when they recognise a gap in their skill set. The difficulty for many is actually recognising their own deficiency in ability to manage their own farm business, for example. Failure to do so will be the limiting factor in future development of the enterprise.

Having spoken during my travels to providers of training such as DairyNZ, it appears relatively easy to engage with perhaps only 25% of farmers. Of the remainder, about 5-10% don't believe they need any training and are likely to swear when the suggestion is made, with the rest of farmers somewhere in between.

Those wishing to engage are typically young and wanting to develop their farm business, having identified that they needed to acquire new management skills. Of course education is a poor substitute for common sense, but like selection of rams or bulls using performance recording data, it is another tool on which to base decisions.

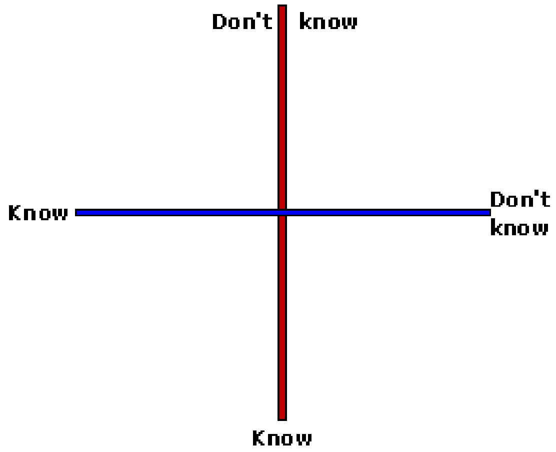
There is a proverb believed to be of Arabic origin which helps to clarify the situation:

> "He that knows not, and knows not that he knows not, is a fool. Shun him.
>
> He that knows not and knows that he knows not, is a pupil. Teach him.
>
> He that knows and knows not that he knows, is asleep. Wake him.
>
> He that knows and knows that he knows is a teacher. Follow him."

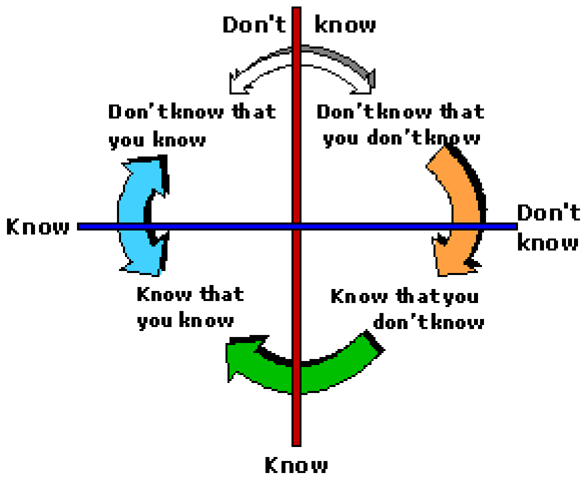
This proverb was the basis for some research into the education system and the ability to teach people. *(Neighbour et al)*. It considers that individuals have two senses with regard to "knowing" in a professional way:

- ❖ Awareness of themselves (represented by the vertical red line in the diagram on next page)
- ❖ Knowledge of the world (the horizontal blue line)

An individual's assessment of their knowledge regarding a particular subject will determine which sector they will fall into.



There are of course four possible combinations.



- **Not knowing you don't know**

The first possibility is that of being unaware that you don't know something. This is the "ignorance is bliss" state, enjoyed by everyone in the pub, for example, who gives the impression they are knowledgeable about politics. Many students start from this position, and although the proverb calls them "fools", it is not really fair.

So the first challenge for a teacher is often to make learners aware of their ignorance which can be difficult in practice. Unless they are a captive audience it is quite easy to frighten them off, but is a key step in developing motivation to learn.

The trick is to show something which appears beyond the students' reach, but not so far beyond it that they will despair. The second trick is to make it interesting, which can be difficult in relation to some subjects. Many learners, especially those who have signed up for a course of their own free will, are only too aware of what they don't know. The last thing they need is for someone to rub it in.

- **Knowing you don't know**

The move from "knowing that you don't know" to "knowing that you know" is what most learning and therefore teaching is all about.

- **Knowing and not knowing that you know**

The interaction between knowing and not knowing that you know is however more complicated.

There are two kinds of knowledge or practice involved here. The first is that for which the move to "not knowing that you know" or "unconscious competence" is the highest stage of development. This applies to the basic skills of driving, or ploughing; the kind of thing you can "do without thinking".

The second is where people who have informally learned a great deal mistakenly put themselves in the "knowing that they don't know" category because they have never received any academic or professional accreditation for their learning. This is the downside of our qualification-driven culture, which dismisses those who are "organic intellectuals" because they do not have the recognition of the formal educational system. There are many successful farmers who left school at a young age with few academic qualifications. Most farmers of my father's generation would fall into this category.

The next category are those who are considered to have expertise. This is the person who knows that they know, but does not know how they know—or can't explain it. Ask about a particularly brilliant bit of practice and you will get an answer which totally fails to do justice to the complexity of what has been achieved.

Some things we can teach, and some we can't. Often practical farmers will find a solution to a particular difficulty. This may be based on their previous experiences, without knowing the science behind it. Alternatively one of the best methods of training farmers is through other farmers. This has been used for many years through discussion groups, Focus Farms and dissemination of on-farm research.

The Agri Food and Biosciences Institute (AFBI) in Northern Ireland have undertaken on-farm sheep management research since 1999. When disseminating the results, they found that by using the farmers involved in the research to present the findings, rather than the researchers, that other farmers were more likely to adopt the new practice.

People need to realise what they don't know, as the only position with potential for development is that of knowing what you know.

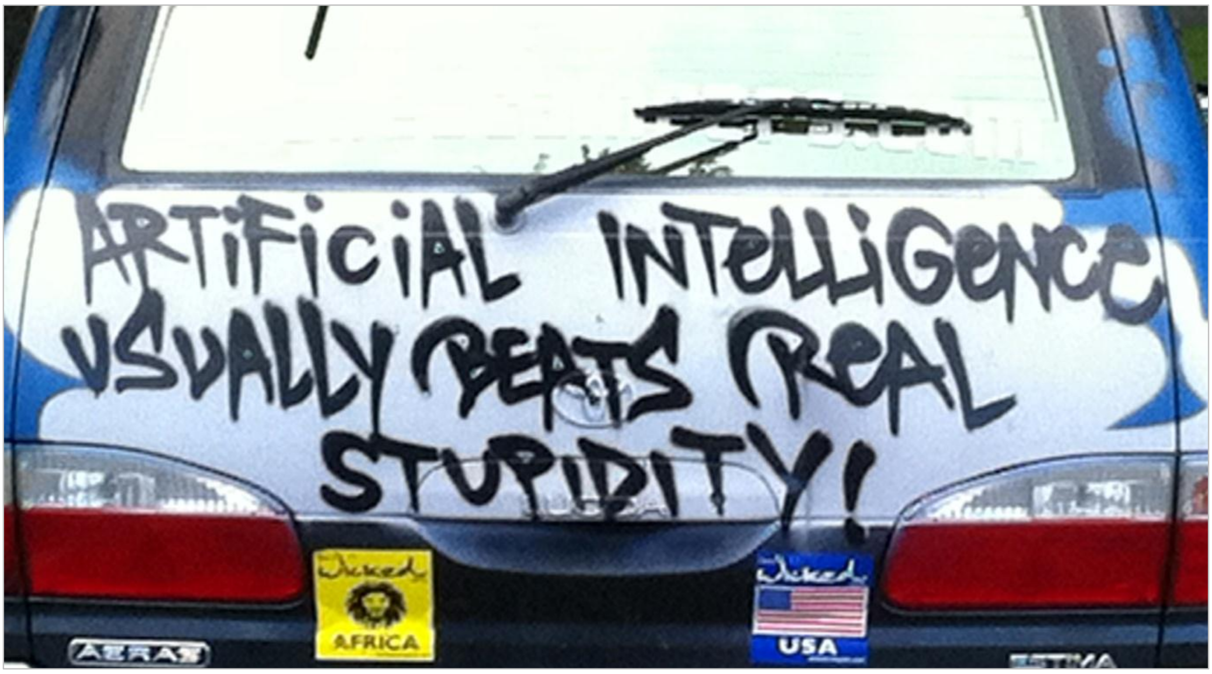
Perhaps put more simply:

- Unknown Unknowns = all the things you don't know you don't know
- Errors = all the things you think you know but don't
- Unknown Knowns = all the things you don't know you know
- Denials = all the things too painful or difficult to know, so you don't

- **The difficulty with training**

The issue of Knowing and Not Knowing highlights the difficulty in addressing training deficiencies within family farms. Once a successor has been identified, perhaps as part of a planning process, it is key that they should be capable of managing all aspects of the business. In order for this to be possible there needs to be some assessment of their level of both training and experience in the subject. This can be done informally, but should be undertaken by an independent facilitator or advisor. We are all inclined to be over optimistic as to the extent of our own ability. If individuals are really focused on improving themselves they will know their weaknesses and seek to address them.

This provides the best opportunity for "real" learning where the persons have a vested interest and are aware of their shortcomings.



Education may not be everything, but it helps!

14. Improving farm business management capacity

14.1 Through full time formal education

If the potential candidate is still at school, as part of their third level education they should be aiming/directed towards completing the highest level of course possible which includes elements of farm business management.

Most young people entering the agricultural sector complete some degree of formal training. In the UK many Further Education courses taught in agricultural colleges tend to be aimed at the day to day management of enterprises with little by way of management training. Such courses are aimed at training the Indians not the Chiefs. Often a potential successor, having chosen to leave school at the earliest available opportunity, will complete this basic level of training without too much thought about ever taking over the family farm. Some students who were perhaps less academic at school may use these practical courses to proceed to a higher level course, with some management content, and an even smaller proportion carry on further to complete an agricultural degree. It is only when a student enrols on a Higher Education courses, that the emphasis on management of farm business increases significantly.

Over the last twenty years or so in the UK we have seen a decline in the number of agricultural courses at all levels. This was in response to poor profitability in the sector, with the most capable individuals choosing another career. Even with rationalisation among course providers reducing the places on offer, many courses remained with few students on them. For the years post BSE in 1996 until around 2009, if you had a pulse and got someone to complete an application form to an agricultural college, you were pretty much guaranteed to be accepted. Such was the poor ability of many students that essential skills training had to be introduced. The same occurred in Northern Ireland at the College of Agriculture Food and Rural Enterprise (CAFRE).

During the same period, although there was a reduction in the number of agricultural degrees on offer, there was still a core of students brave enough to complete this route, although some would say there was a dumbing down of course content, specific to the farm sector.

Contrast this with China over the same period, where there has been a huge increase in investment in education including agriculture. The long term strategy of the Chinese government is to be able to feed their domestic population. While the westernised economies were sleep walking with the view agriculture was a sunset industry, China identified the prospect of social unrest as a consequence of food shortage. It is turning out huge numbers of highly qualified graduates in all subjects including agricultural management.

In the UK the one benefit of the current downturn in the rest of the economy, coupled with more focus on increasing world population leading to higher agricultural prices, has been a huge increase in applications to agricultural courses. This is positive because educational establishments have been able to raise their entry criteria substantially, so only the brightest and best students academically will get a place. This is very positive for the sector going forward, as the calibre of people entering agriculture will be much higher.

In New Zealand there is a much greater emphasis on young people choosing to complete their formal education with a degree course in agriculture, with many students also opting for commerce (or business). With world class universities such as Massey and Lincoln the agricultural industry is well placed to receive graduates of a high calibre, well trained in business management. Most of these students are coming from a farming background so also have practical experience at a production level. Inclusion of business management training within formal tertiary level education is the preferred means of giving young farmers the capacity to manage a business.

Once a potential farm successor leaves full time education it is unlikely they will return to full time study, with the acquisition of knowledge perhaps more difficult to acquire away from a formal setting.

14.2 Benefiting from the previous generation

If a successor takes over the farm, hopefully the previous incumbent is still around for a period of time, to pass on some of their experience. As highlighted earlier, the latter will have spent a lifetime gaining their knowledge and this is a huge resource if it can be accessed. Such an arrangement can be difficult to formalise, although perhaps allowing the retiring farmer to have a seat on the board can provide the mechanism for them to have input. This will ensure that at least for a period the younger farmer will have to justify their decisions to the board, where the retiree can offer their opinion. This provides the successor with the freedom to act, but also provides a brake to prevent them from getting completely carried away.

An interesting example in Australia was where a retiring farmer had no other interests outside the farm and while he wanted to relinquish the responsibility of the business, was unsure what he would do. Someone suggested he should be appointed to the position of woodcutter, once his son had taken over responsibility for running the farm. This position was unpaid and didn't require the man to be there every day, however it provided him with a purpose without any pressure or responsibility. The reality was that the man actually cut very little wood. He would go to "work" and find his son would ask for help or advice about something to do with the farm, or perhaps the daughter-in-law would need someone to collect the grand-childdren from school. The retired farmer said it was the most fulfilling time of his life as he felt valued by being able to contribute to the business in an informal way when asked for his help.

14.3 Farm management consultants

The use of a farm management consultant can satisfy a number of requirements within a farm business. It can provide a quick fix through "buying in" management ability that would otherwise take time to acquire. This may be time that the business cannot afford to wait to acquire, or the farmer cannot commit. The independent advice of a consultant should be objective as they don't have the same prejudice towards the business as the farmer. Sometimes people know they need to make difficult decisions for the survival of their business, which are unpleasant and will be avoided unless there is an independent voice confirming it is the right thing to do. However, after a period of time, consultants may be inclined to tell a client what they want to hear. In the absence of an older or more experienced farmer, the consultant can provide the additional management capacity, which is lacking in the farmer himself, but in the end the client must make the decision. This may provide the stability needed within the business, while a new entrant finds their feet and builds up their knowledge base and ability. This could be through experience gained on the job, or by completing more formal training on a part time basis. The result may be the farmer feels that, after a period of time, he no longer needs the services of the management consultant; but that is now entering the realms of mistakenly thinking "you know that you know".

In some cases the farmer will of course be correct and the consultant no longer adds anything to the business. I spoke to an Australian farmer who used the services of a farm management consultant for over twenty years, but typically changed to another consultant at least every 3-5 years. His argument was that people tend to become comfortable with an arrangement after time, and once the consultant stopped challenging him it was time for a change. When making a change he asked around among the successful and progressive farmers in the region as to who they would recommend, in order to draw up a shortlist. This would be something also for the UK industry to consider as movement between consultants tends to be infrequent.

I met some members of the Laureston Farm Improvement Club in Canterbury, New Zealand. The group is made up of 150 farm businesses which employ a team of four consultants providing management advice in livestock, crops, finance and business management. As part of the annual membership farms were entitled to a minimum of a half day of advice every six weeks with extra advice available more frequently for an extra charge.

Another issue that I came across was the provision of free management advice, normally through an advisory service run by government. The general feeling was that such individuals don't have to rely on the quality of their advice to get them onto a farm and keep them employed. It is only when advisors can challenge farm businesses with their management that they tend to add anything.

The old adage about anything you get for free isn't worth having, seems to apply!

14.4 Gaining experience outside the farm

By working off farm in a commercial setting after completing formal education, which may well have been in an agriculture-related subject, graduates may seek to get management experience in another sector. This is more likely to occur if their parents are still relatively young and active in the family farming business, or if a succession strategy has not yet been developed. This period can offer invaluable on-the-job training providing the individual with a great deal of business management experience. It also provides a perspective on how it feels to be an employee, which is useful if the individuals are likely to become employers, once they start to farm.

I met people who had gained experience in the financial sector, as an accountant or working in another commercial organisation, where they were directly exposed to business management issues. The longer the period, the greater experience the person will obtain which will provide skills directly transferrable to the family farm. In some cases they may also obtain further qualifications which will further enhance their skill set.

14.5 Higher level training

Most of the higher level courses in farm business management currently offered in the UK require a significant time commitment, with a formal academic qualification at the end. This is generally because training is focused on academic achievement rather than practical outcomes. This can be difficult to commit to, when immersed in the daily work of running a farm business. It may be great to add that you started a recognised management course on your CV. Anyone reading would be less impressed to hear that you failed to complete it because of calving, lambing, spraying or harvest. Perhaps there needs to be an adaption to the type of training available with a focus on what it can add to the skills of the individual rather than helping to achieve training targets for the education establishment. In summary course provision should be needs based and focus on the needs of the farmer participating rather than the provider.

In New Zealand the biggest current training requirement from DairyNZ by farmers is Human Resource management. Given the rapid expansion of the scale of dairy farming operations in the last 5 years, young dairy farm owners are now employing large numbers of staff and finding they do not have the experience to manage the process, or understanding of legal responsibility for recruitment and staff issues. The response from DairyNZ has been to deliver HR training in a short intensive format that provides participants with what they need.

For individuals who have entered the workplace, including working on farm, there are a number of very focused part time training programmes. Such programmes are aimed at highly motivated individuals who hold positions of responsibility and are highly regarded among their peers. The number of places is tightly controlled and candidates have normally been identified as future leaders within a commercial or industry organisation.

Such courses exist in most developed countries and aim to improve the skill set of the participants. This is often achieved through taking them outside their normal comfort zone to complete a particular task. Such programmes are usually run over several short concentrated periods through the course of a year. They deal with a range of subjects such as business management, finance, marketing and media, lobbying skills and international relations.

In the UK there are several high level training programmes such as the Worshipful Company of Farmers Challenge of Rural Leadership Course.

- **The Kellogg Programme**

In New Zealand the Kellogg Rural Leaders Programme is run annually with 20 participants on each course, coming from a range of industry backgrounds. These include family farming businesses, co-operatives such as Fonterra and Synlait, as well as corporate business employees.

Candidates are selected based on the leadership potential they demonstrate and experience to date, which includes involvement in rural society. The mix of participants' backgrounds is considered carefully to ensure there is a good diversity in the group which is considered important from a learning perspective. Other things taken into account are a good geographic spread, gender balance and a range of sectoral backgrounds.

In the past, participants have come from the medical profession, those involved in rural education and even members of the clergy.

The programme runs over the course of a year and is split into three elements with leadership and presentation skills a priority. Participants learn about other sectors of the economy and work with colleagues on team building and problem solving tasks. A major project takes place during much of the year which is presented at a final residential. Linked to this is interaction with politicians and international business leaders

Sponsorship of 200K NZD is provided by a number if industry sponsors including DairyNZ and Beef and Lamb NZ. Participants or their employer pay NZ$3,500 as well as all their travel and accommodation costs.

The Kellogg Programme is well known and regarded in New Zealand, providing a network of contacts for future mutual benefit, much in the same way as the Nuffield organisation does.

- **The Food and Agribusiness Market Experience (FAME) Programme**

This programme is run jointly by Lincoln, Massey and Otago Universities, with Lincoln having the lead delivery responsibility. There is a joint programme development group and an independent Board of Trustees. Following withdrawal of the main sponsor in 2010, the programme is now self funding.

FAME is a full-time course that includes a wide range of topics covering all aspects of the supply chain, from farm gate to retail outlet. While the course is New Zealand-based, it also includes international travel to Asia, North America and Europe studying supply chain innovation and best practice. The participants develop their knowledge of overseas markets and customers' needs through contact with international markets and international executives, visits to production, processing and retail sites, and by observing competitor offerings and supply chain best practice. This programme is expensive costing around NZ$ 25,000 per person, so participants must be of a high calibre to justify the expense.

- **Agricultural Leadership Programme**

The Agricultural Leadership Programme (ALP) is a professional development initiative by Landcorp Farming Ltd and the New Zealand Institute of Management.

The ALP provides the opportunity to develop management and leadership competencies through the interaction with topic experts and with colleagues from the agricultural industry.

The skills learnt through this stimulating and innovative programme are immediately applicable in the workplace. The programme is aimed exclusively at agricultural leadership development. Delivered by industry experts and experienced educationalists it will challenge and grow participants with its content and different learning experiences. It provides participants with networking opportunities among industry peers, leaders and experts, as well as offering ongoing professional development support. The course is run over seven days in November each year and fees are $7,750 NZ per participant.

- **Agri-Women's Development Trust's Escalator Programme**

Developed by the Agri-Women's Development Trust for rural women, the 10-month Escalator Programme provides current and future leaders with the skills and capabilities to govern and lead rural organisations and communities. Each programme is limited to 11 selected participants. The Programme includes five intensive two-day modules every two months, each focused on different aspects of business development, leadership and governance. Between modules there is a distance learning programme to back up the module experience through individual development, coaching sessions, putting into practice module learning, and observation of industry leaders and boards in action. After the programme, the Agri-Women's Development Trust coordinates mentoring of participants and assists with year group development.

- **The Rabobank Executive Development Program (EDP)**

The Rabobank EDP examines the latest management theories as they apply to agriculture, in order to enhance commercial management skills, explore growth opportunities and develop business strategies. Through a mix of interactive lectures, class discussions, group work and case studies; participants are exposed to innovative and dynamic information by industry experts and consultants, while networking with other leading producers from a diverse range of locations and agricultural sectors. The programme is made up of two six-day modules over a 12 month period. Places are limited to 36 selected participants on each course which is held in Sydney, with a fee of AUD$ 12,100. No third level education is required for entry and Rabobank client status is not a prerequisite. Applications are accepted from leading agricultural primary producers from Australia and New Zealand and are considered in the context of the following selection criteria:

- The applicant is a key decision maker for the operation
- Has at least five years' strategic management experience on-farm
- Can demonstrate a successful commercial track record
- Has a desire to invest in the intellectual capital of an agricultural business or supply chain
- Seeks to innovate and drive growth

14.6 Other commercial experience

Many agricultural organisations are governed by farmers elected as board members or directors. They come from within the membership, as in co-operatives, or a particular sector for representative organisations such as New Zealand Beef and Lamb. In the UK there are few formal requirements regarding level of experience or training required to be eligible for election to such a position.

The normal procedure is that a candidate must be proposed and seconded from within the membership, and agreeable to serve the duration of the term if elected. It surprises me that in the UK there are normally no requirements placed on newly elected representatives to complete any recognised form of training in corporate governance.

Participation in outside organisations provides an invaluable source of management experience, whether directly related to agriculture or not. It offers farmers the opportunity to acquire experience and expertise in corporate governance and responsibility which is easily transferrable to your own business. I compare it to passive smoking. However it will not damage your health, or that of your business!

By immersing yourself in the world of commercial business, you should be surrounded by effective communicators and decision makers and be able to learn from them.

I spoke to the Chairman of a New Zealand based co-operative who provided details of the training expected to be completed by all Directors in his organisation, which was accepted as the norm.

In Australia and New Zealand it is a common minimum requirement of most commercial and representative organisations that directors complete Institute of Directors (IoD) training in corporate governance and decision making. Other training is expected to be completed as deemed necessary, such as the Accounts for Directors course. Many companies, including the co-op cited above, will offer reasonable contributions towards training programmes for directors, such as the Kellogg Programme or the Rabobank Executive Development Programme.

Additionally there is an annual appraisal of each Director which will highlight any areas for improvement or deficiencies in performance. This is done by each Director completing an online IoD assessment tool anonymously for every other board member. The results come to the Chairman who discusses them with each individual privately. This process can have significant impact if used properly and not just a tick box process. In the past a very outspoken maverick director was dismissed after one year into his term for failing to follow the strategy agreed by the board. Another director in his second year received poor assessments regarding his performance. After discussion it was agreed the Chairman would work with the Director to address the issues. If there is another poor assessment of the individual the following year then both will have failed and the director dismissed.

A 360 degree assessment was introduced by the current chairman and although softer in the first year, is now accepted as routine and pulls no punches.

The board has recently appointed a number of individuals as non executive directors to add to the skill set of the board. This was done through a formal recruitment process which interviewed potential directors.

The Chairman is elected annually by the board, who then delegates Chairmanship of sub committees to provide a learning experience for individual directors. The strategy for the organisation should be determined by the directors with the assistance of an independent consultant, if necessary, to facilitate the discussion. The senior management should then be brought in and told the strategy, rather than trying to influence it. Directors need to ensure their actions are in line with the agreed strategy, which should be reviewed regularly, perhaps every 18 months.

The Chairman doesn’t necessarily need to be the smartest person in the room, but should be a good team leader and people person. Professional people are employed to manage and directors should not be allowed to micro manage.

I feel there is much we could learn from the New Zealand approach taken to responsibility of directors, as well as the minimum training requirements.

15. Case studies for management training

I have previously highlighted a number of very focused training programmes for people from the wider agri-food sector. There are also a range of organisations which have internal training programmes for farm staff to improve their management capacity and develop the efficiency of the organisation, as well as others who provide training for individual farmers running family businesses. Below are several examples of organisations which are very focused on up-skilling farmers.

15.1 DairyNZ

DairyNZ is an organisation for New Zealand dairy farmers funded by a levy of around 3.6 NZ cents / kilo of milk solids, providing an annual budget of over 70 million NZ$. The levy is voted on every five years, the last occasion in 2009 when the majority view was that it should continue and potentially increase.

The purpose of the organisation is to secure and enhance the profitability, sustainability and competitiveness of New Zealand dairy farmers at farm, national and international level. It is known as an "industry good" organisation to promote all aspects of dairying in the country. Working jointly with other organisations, DairyNZ helps fund research and development, to provide tools for use on farm, to promote best practice production techniques, encourage people to work in the dairy industry and influence policy to the benefit of levy payers.

They have a network of staff throughout the country that deliver services to support the dairy industry across three main themes.

- **Profitability** - developing improved production systems to make best use of resources such as feed, genetics and cow management.
- **Sustainability** - to balance production with the environment, animal welfare, impact on the wider community and biosecurity.
- **People and Business** - improving human capability and business competitiveness.

While identifying and instigating research and development, much of DairyNZ's business is to effect a culture change in farmers from one way of thinking or behaving to another. This tends to be through giving farmers the knowledge and creating the conditions for the change to take place.

Training and personal development is delivered by staff in many formats, through a range of programmes.

- **Specialist Programme**

Practical courses offered for new entrants to the dairy industry. Some participants may not have previous experience working with dairy cows and have been attracted through the "GoDairy" programme which seeks to recruit people to work in this rapidly expanding farming sector. They could also be used by farmers' sons who have returned to the farm after working in another sector of the economy to obtain a skill or trade. The underlying principle of GoDairy is that anyone can work in the dairy sector, with the belief that you are "hiring an attitude and can teach the skill".

This is a concept that the UK industry could use to attract new entrants from a non agricultural background in conjunction with a share farming type arrangement.

Such practical training courses include Pasture Plus which looks at grass management and involves 10 monthly sessions for participants.

- **Progression Programme**

Once people are competent in basic skills there is another tier of training available which is aimed at those who want to develop their management ability or those who wish to invest in the sector.

Biz Start is for those already in a management role who want to develop their skills to become better managers or perhaps seek more responsible positions.

Biz Grow is targeted at individuals who have an investment in the dairy industry and wish to increase the scale of their interest. Those who are share milking often complete this course.

One interesting feature of the New Zealand dairy sector in 2010/2011 was the level of returns being obtained by those in share milking positions. It was not uncommon for their return on investment to be over 30%, and up to 40% for the best managers. A consequence of this was that farm owners felt their share milker was getting too much of the profit, and reverted to employing a contract milker again. This left a number of share milkers without a position and has distorted the normal pattern of progression to farm ownership.

Another anomaly was that some share milkers kept their position because of the very high return on capital, even after they had purchased a farm. Rather than just work as a farm owner getting only 3% return, they used their share milking job to reduce debt and employed contract milkers or farm managers to run their unit.

DairyNZ has national and regional training strategies, but the real difficulty is getting farmers and farm staff, to engage with training. Estimates suggest that only around 25% of those working in the dairy sector are relatively easy to convince of the need to improve their skills.

These most motivated and stimulated people are often in their 30s and are the low hanging fruit as far as engaging in training is concerned. Typically they may be lower order share milkers who want to progress, ultimately to farm ownership.

Those who have got involved in equity partnerships have come to find that with only perhaps 5% share of the business that they are stuck in "equity handcuffs".

Usually as a farmer gets older and into a more comfortable lifestyle as a farm owner, their enthusiasm for personal development diminishes. Often it is the wife of a farming couple who engages and becomes the Chief Financial Officer in the business, but the husband continues to spend. There is a need for people to take control of their business, perhaps before their bank steps in during leaner times as experienced in recent years, where businesses have high debt levels. The real question is how to get farmers involved and take ownership?

A tool developed for this purpose is the "Whole Farm Assessment"

It is similar to succession planning in some respects, by seeking to identify the goals a farmer has and then comparing them to reality. Differences between the two positions may highlight what additional training is required.

"Mark and Measure" is a much more in depth assessment of the business and examines physical and financial performance. Again deficiencies may be highlighted that demonstrate the need for up-skilling.

Practical workshops or training programmes are used to address the skills gaps. DairyNZ act as facilitators to discussion groups of around 30 people, typically 15 farmers and their key farm staff. These sessions are conducted in a free and frank manner addressing physical and financial performance, with an emphasis on management.

While around 86% of farmers use the internet during the milking season to monitor milk output and quality, for example, only about a third use the DairyNZ website to assist with management issues. "FarmFix" is a one page solution to common problems which is being further improved, though farmers seem reluctant to make a financial decision based on the internet.

Around 20% of dairy farms employ a consultant but this rises to as much as 40% when issues around Human Resource (HR) management are included.

Many of the New Zealand corporate dairy farming businesses actually have a family corporate structure that often employ operations managers. In reality these are providing "in house" consultancy.

In order to try to raise the profile of the best managers and practices in the sector, the Dairy Industry Awards seek to identify and reward the blue sky thinkers. Typically there are over 1,000 entries with 3 winners.

On the back of this process, groups of like minded people who want to develop themselves are identified as a progression group, and a development programme tailored to their needs is provided. This will include input from professionals such as solicitors, bankers, policymakers and HR consultants. Each of the participants will produce a personal plan to develop them and their business over the next 3 -5 years.

Components of their plan will include:

- Industry knowledge.
- Financial knowledge.
- People management skills including farm supervision ability.
- Assembling a team of advisors and supporters to assist the business and individual.

Each year a very small number of high calibre people progress to high level programmes such as Kellogg. These individuals tend to be very focused and seeking positions on the boards of industry co-ops such as Fonterra, or representative positions like NZ Beef and Lamb.

DairyNZ currently provides financial or practical support to a range of the programmes aimed at improving the management capacity of New Zealand agriculture and include:

- Quality Work Environment
- Kellogg Leaders
- Regional Women's Network
- Nuffield Farming Scholarship
- Developing Rural Youth
- Getting into Dairying
- Chair in Dairy Production
- Leadership Pipeline
- Wellness and Wellbeing Programme
- Dairy Women's Network
- DairyNZ Chair in Farm Business Management
- Alleviating stress on dairy farms - Interim funding
- Professional Land Manager Network

The main issue identified by DairyNZ as the limiting factor for the amount of training which will be delivered in the future, particularly in the more advanced business management programmes, will be a shortage of suitably qualified trainers. Currently it takes in excess of ten years for individuals to acquire all the knowledge they need to fill such a role. There is such a demand foreseen that this time simply will not be available. Currently there is a project to try to identify the most efficient means of training the trainers to the required level, without the need to spend a decade acquiring the necessary experience.

DairyNZ have identified different farm structural issues across various regions of New Zealand, with focused programmes to tackle these specific problems. For example, farm succession is a priority in North Taranaki and on the West Coast, which although a difficult problem to address, older farmers are now beginning to consider, encouraging new entrants and what they can do to assist them.

15.2 Landcorp

This is a substantial, mainly pastoral, agricultural business being New Zealand's largest farmer and a State Owned Enterprise (SOE), which assumed the commercial farming and property activities of the former Department of Lands and Survey in 1987.

It runs 1.5 million stock units across 122 properties owned and leased, totalling 376,156 hectares.

There are 600 farm staff, with a further 75 administrative staff and 4 training officers.

Its declared mission is "To provide the shareholding ministers with maximum sustainable financial returns."

"Landcorp plays a leading role within the industry, contributing to government and other forums on matters affecting farming and rural communities. It has invested heavily in science, technology and in training and education for both its own staff and the agricultural industry".

The biggest constraint identified in the development of the organisation is up-skilling staff. The increasing rate of new technology available and its adoption within the Landcorp business creates additional pressure to train staff in its use. There is little point investing in new technology if staff are unable to operate it to its full potential. The organisation spends on average $1,500 NZD per employee per year on training, through programmes that operate at a number of levels.

All new staff must complete compulsory training in Health & Safety and basic skills, such as ATV training.

The Future Farmer programme takes up to 16 Future Farmer students to work and learn during a one year training placement on Aratiatia Station near Taupo, in the North Island. They can obtain a recognised qualification at the Agricultural Industrial Training Organisation (AG ITO) level 3 standard. Those achieving the required standard may be offered trainee positions with the organisation.

- **Internal training**
    a. Landcorp Way: an induction programme that introduces all new employees, farm and office, to operations, organisational structure, policies and processes.
    b. Enhancing the Landcorp Team: an induction course for new farm staff
    c. Next Step: prepares key staff to step into the manager's role when they are on leave or away from the workplace.
    d. Maintaining High Performance Teams: team leadership training for managers or those identified as potential

managers.

- **Leading Edge Competencies**: for those who have completed number (d) above, further develops managers to focus on successful outcomes.

Each year the top performing 15-20 managers in each sector are selected and challenged by outside experts to develop their management ability and technical skills.

Under the Focus Farms Programme, there are usually several Landcorp farms involved at any one time.

There is a huge emphasis in providing training for all staff at all levels of the business. This tends to be based on the 70:20:10 model -

70% of training is on the job development to minimise time away from the farm

20% of training completed through feedback and mentoring

10% completed through off farm training programmes.

Increasing numbers of management staff have completed week long, NZ Institute of Management accredited programmes in subjects such as Project Management and Managing Difficult Staff.

Each year 2 or3 people are sent to Australia to participate in the Farm Managers Programme.

Landcorp will pay the course fees for staff to undertake external training, but only when they pass and receive a recognised qualification.

Individual development plans for each staff member and exit interviews of leaving employees help Landcorp managers identify gaps in training provision, as well as other measures to support staff to maximise their skills and performance.

Employees are encouraged to take responsibility to complete additional training that will provide skills which they can apply in their job.

If a problem is identified with any staff member, their manager will intervene and provide one to one mentoring.

Within the Landcorp structure employees are constantly challenged to continue their development. A manager who was in the top 5% of the organisation ten years ago is now likely to be around the middle. After a further ten years they will probably have dropped to be in the bottom 10%. In order to combat this process of stagnation an employee may be moved to another farm to work with different staff in another environment. A process of amalgamating 2 farms was undertaken to develop “super managers” in some situations. This had to be reversed when it became clear that some individuals were not up to the task.

The rate of staff turnover is a big issue, given the amount of time and resources invested in training them.

Where new technology is being assessed it is normally trialled on a small number of farms. Only if it is found to be beneficial, is it then rolled out across the whole business.

Senior management groups comprising the managers of the larger farms have quarterly meetings and every 2 years there is a Wellington based conference.

There are regional meetings on a regular basis to assess the flow of stock in relation to the budget.

The biggest challenges to the organisation over the next 10 years have been identified as:

- Training staff to exploit new technology
- Climate change issues
- Changes in the behaviour of the agricultural industry
- Identifying enough external managers to fill senior positions. With Landcorp already recruiting oversees staff that are suitably trained.

Training of staff to a sufficiently competent level is therefore a key issue in addressing the concerns identified over the next decade.

15.3 Dairy Holdings NZ

Farming 44,000 dairy cows and 10,000 young stock across 72 farms in Canterbury, Southland and Otago, makes Dairy Holdings the largest privately owned dairy farming company in New Zealand. They are the largest privately owned supplier to Fonterra, producing over 15.18 million kilograms of milk solids in the current year. There have been significant changes in shareholders in the last twelve months but this has had little impact on the operation of the business.

Each of the farms is run by a manager with additional staff as appropriate. There are two Farm Operations Managers and four Farm Supervisors who oversee day to day operations. The main office in Timaru is where CEO Colin Glass and 5 other administrative and financial staff are based.

Given the scale of the farming operations across so many sites the company has developed a "manual" for all staff members. This contains protocols for all activities carried out in connection with the farm operation. For example, every dairy cow is treated as soon as she calves to prevent milk fever. This operation uses a standardised approach which has been developed in conjunction with vets and nutritionists, and is written down in black and white meaning all farm staff know the proper procedures to be followed. This also ensures that in the absence of the farm manager other staff can refer to the manual to ensure continuation of operations.

Within the company structure is the normal progression of employees typical of the NZ dairy industry. When recruiting new staff the policy is to check their employment history. If candidates don't stay in a position beyond two years they are likely to lack the commitment to the business. All staff are required to have completed a minimum of formal training including Health & Safety, Effluent Management and Compliance courses. Dairy Holdings is "Investor in People" accredited, which involves interviewing all staff and is seen as an employer of choice.

Staff go from being contract milkers, to 2 ICs (second in command) then farm managers and finally share milkers who will own some cows.

Milker →2 IC →Manager →Share Milker →Farm Owner

In any one year, the management expect 3 or 4 share farmers or managers to leave the business and purchase their own farms. This is accepted as a normal turnover of staff and ensures that employees can develop and progress through the business. Some conditions can however have far reaching results. The introduction of a random drug testing policy in 2010 led to the loss of around 30% of staff, in one go. However such an approach develops a positive culture of responsibility within the organisation. At the very least, it should reduce the potential for work related accidents. This is indicative of a forward thinking organisation.

As part of Dairy Holdings' training programme there is an annual conference for 200 senior staff, and employees are encouraged to get exposure to wider industry events.

Use of new technology is seen as key to improving efficiency. Through the company intranet management can access detailed information for every field on every farm. This includes fertiliser proof of placement using GPS technology which is cross referenced with the farm fertiliser application plan. When this is linked to detailed irrigation application records and soil moisture monitoring through probes in the soil, area managers can identify potential grazing deficits up to two weeks before they happen. Milk yields, quality and hygiene details are available and are also indicative of the management ability of staff on farms. However, at the other end of the spectrum there is a risk that the volume of data available could be used against the business by, for example, environmental regulators.

With such a volume of information available, the company has had to ensure farm staff are able to interpret data and act on it if necessary. Farm staff still retain the authority to make decisions regarding their unit, however area managers will step in if they see problems developing or repeated.

By having a standard farm manual for all units, the protocols for all routine tasks should be well understood, although this, it could be argued, removes some of the decision making from farm management staff. The reality is that in a business of this scale, there is no room for things to go pear shaped.

15.4 China

All Chinese school children sit a university entrance exam. Depending on their results the Authorities determine which course they should study in which university. This is part of a strategic plan to ensure there are sufficient professionals in all disciplines, including agriculture.

In a visit to the Agricultural University of Wuhan in Hubei Province, I learned that there were around 30,000 students on all courses covering a range of agricultural disciplines. The hardest fact to take in was that this was only one of 70 universities in Wuhan, each with 30,000 students. Over 2.1 million students in one city!

It is clear China has a policy of training large numbers of young people across all subjects. Many Chinese universities have links with partner universities in the developed world, and are benefiting from cutting edge research globally. On a flight to Shanghai I was fortunate to sit beside a microbiology student, who was in the last term of his degree at the University of Copenhagen and able to confirm this first hand.

At a time when many developed economies, including the UK, are reducing investment in research and training, China has identified that it needs a well trained workforce in the future. This will leave the UK at a disadvantage when compared to competitors in the BRIC (Brazil, Russia, India and China) economies.

At the University of Yangling in Shaanxi Province, I met with Professor Tong Yanan. He is Director of the joint China-UK Sustainable Agriculture Innovation Network (SAIN). This programme jointly funded by the Chinese Agriculture Ministry and DEFRA in the UK, was launched by Hilary Benn, then UK Agriculture Minister. With partner researchers at Rothamstead, the programme seeks to reduce the environmental impact of Chinese farmers.

For many years the university has been undertaking crop trials looking at the growing of wheat and kiwi fruit. Around 70% of Chinese kiwi production is in Shaanxi Province. I had the opportunity to visit some of the trials. A neighbouring farmer arrived to cultivate the land under his kiwi plants to remove weed seedlings. Through my interpreter it was established that the farmer had been growing wheat until 1996, then switching to kiwi fruit production. When questioned, the farmer stated that he made the change as a result of consultation with the agricultural ministry.

It appeared that the Ministry had decided that all the farmers in the area should switch to kiwi production as part of centralised agricultural policy. Wheat only continued to be grown on roadside verges and other small pieces of land.

Farmers are supported by a huge Extension Service across the country, which includes research and education establishments and technical advisors. Figures provided, which were from the "Collection of state-owned personnel and labour statistic of national agriculture", indicated the official number of staff involved at all levels of the service to be in excess of 760,000 people.

Nationally there are state run educational channels on both television and radio. These provide information and training to farmers across the country. While suffering from jet lag after arriving in China from New Zealand I observed a television programme about sheep farming (I think). No interpreter was available at 2.30 am, but it appeared to be providing basic information about housing design and feeding for sheep.

It seems that much of the management of farms was provided through the centralised government advisory system. It was difficult to get much information on the financial aspect of Chinese agricultural businesses. However one source stated that, in an attempt to encourage a large increase in agricultural output farmers were no longer subject to taxation.

Along with Nuffield colleagues I visited a sweet potato co-operative near to the city of X'ian. A manager explained that the members of the co-op were trying to add value to their crop by storing it and selling it out of season when the market price is considerably higher. This required storing the crop in a controlled environment to maintain its quality. The costs of erecting and running a cold store for the purpose were prohibitive given the limited resources of the members.

What they had chosen to do instead was to construct a subterranean network of tunnels which would hold some 500 tonnes of sweet potatoes. This was the only time I felt in any type of danger during my time in the country. (Assuming you forget the hour I spent in agony during a Chinese massage. My assailant was a man walking over my back on the points of his elbows with the sole purpose of making me feel as much pain as possible.)

Anyhow, back to the Great Escape. The tunnel was some 6 metres below ground level with what appeared to be only a coat of plaster on the inside surface of the roof and walls. It seemed doubtful that there was any type of reinforcement to support the chamber. There was a co-op member with a shovel digging a side chamber with nothing but soil above him, in the light of a single bulb, while his colleague threw the material back along the main chamber. It appeared that this simple, if somewhat precarious, storage method had the potential to significantly improve returns to the members of the co-op for little cost except their labour.

You can see a photo of this tunnel on the next page.

15.5 Finland

Finland has a much higher proportion of younger farmers as head of the business, compared to the UK. There is a greater culture of encouraging young people to enter agriculture and assume responsibility.

Though partly due to more generous pension arrangements provided by the government, Finnish society has greater recognition of the contribution agriculture makes to the economy and to managing the environment. They are prepared to provide additional support to farmers which is not of a monetary nature. For example, every farmer in Finland is entitled to at least 1 or 2 weeks paid farm relief to permit them to have a holiday, with the length of time depending on the size of the farm. There is an extensive network of entrepreneurial advisors, who assist farmers through provision of training, as well as development of new enterprises.

A young Finnish dairy farmer I spoke to has interests in a biotechnology company seeking to create efficiency in the paper industry, by developing a natural technique to break down lignin in the pulp process. This business was created in partnership with two researchers who required funding. Sirpa Lintunen is a former dairy farmer who has retrained and provides support to young farmers, as an entrepreneurial advisor. She stated that young people are much more open to develop new enterprises than older farmers. Finnish research confirmed this by comparing economic activity between farmers aged under 40 and those over 50. The belief is in creating a “can do” culture and putting in place the mechanisms to support young people through the management challenges, and so build the intellectual capacity of the rural economy. Training programmes aim to deliver short courses in a concentrated way to rapidly up-skill participants.

Underground sweet potato store in China

16. Conclusions relating to management ability

1. Family farms in the UK agricultural industry often lack the necessary business management capability.

2. There are skills gaps in those assuming management roles within family farms.

3. Deficiencies in the ability of those managing family farm businesses need to be identified before they can be addressed.

4. There is currently too much industry focus on production efficiency and not enough on strategic business planning.

5. To help the training organisation to meet its targets training needs to be focused on meeting the requirements of the farmer rather than forcing the latter down the route of attaining an academic qualification.

6. Even part time management courses are not readily accessible by farm family members and are still focused on academic achievement.

7. Most existing higher level training programmes are aimed at developing a small number of industry leaders, rather than improving the management ability of business managers across the wider industry.

8. Creating a formal management structure can improve overall business performance.

9. Businesses, regardless of size, which adopt a board type structure, can provide a support mechanism for inexperienced managers.

10. Family farm businesses need to question whether their management consultants are challenging them sufficiently and are actually adding anything to performance.

17. Recommendations for both succession planning and management ability

1. The UK agriculture industry needs to develop a culture of openness around succession planning, with parents and children able to raise and discuss the subject in an objective manner.

2. There needs to be clear communication between parents and children so there is no confusion about what each party expects and desires.

3. A network of suitably trained facilitators should be established, to provide the skill set to successfully assist farming families through the process of planning for the future.

4. Within the current legal and accounting framework the UK industry needs to develop suitable mechanisms to protect business assets from risk, such as divorce settlement

5. There needs to be greater co-operation among legal and accounting professionals to always put the interests of the client first.

6. There must be a positive approach to succession planning to preserve the family unit as a priority, rather than simply minimise tax liability.

7. New entrants to farming need to have completed appropriate agricultural education including modules on management and strategic planning. This will prepare them for the demands of running a modern farming business.

8. A system of management training should be developed to up-skill those who have already left formal education, to allow them to further develop their business.

9. Farmers should be encouraged to participate in business focus groups with like minded individuals, which consider all aspects of business development and structures rather than having the traditional production orientation.

10. Farm businesses need to constantly assess the value of their management consultants and change them every 3-5 years, to continually challenge the business.

11. Management training for those already in the industry should be needs focused, to meet the student's requirements without the current emphasis on academic qualification.

12. Family farm businesses need to establish a more formal management structure to support new inexperienced managers.

13. Directors of industry organisation should be encouraged to complete minimum recognised training in corporate governance.

18. What next?

My study has afforded me the opportunity to meet many inspirational and innovative people.

This has re-invigorated my enthusiasm and provided me with a number of ways to further develop my business, through improved efficiency and restructuring its organisation.

On the back of my existing mentoring and training experience, I can see huge potential to get involved in the arena of assisting farming families to secure their future, through successfully managing generational change. This will require completion of training in mediation and counselling, but could also be delivered in partnership with others.

I have also been encouraged to improve my capacity to manage change in my business by building my management experience.

I hope to continue the journey Nuffield has taken me on and to be better equipped to manage the relentless change which lies ahead for UK agriculture.

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www.rabobank.com.au

www.sainonline.org

www.dairyholdings.co.nz

www.godairy.co.nz

www.compliancetoolkit.co.nz

21. Appendix : Details of the early retirement scheme which operated in Republic of Ireland.

Rules

The scheme is called Early Retirement Scheme (ERS 3) 2007. It came into effect on 13 June 2007. This scheme replaced the 2000-2006 Scheme. The major change introduced in 2007 is that payments are better for farmers with a small number of hectares.

The rules governing the scheme are complex, both for the retiring farmer and younger farmer. The following are the more important rules.

The retiring farmer

In order to qualify:

You must be aged between 55 and 66 on the date the completed application is received in the Department of Agriculture, Food and the Marine

Lands transferred by deed of transfer/lease on or after 1 January 2005 are eligible for inclusion under the scheme

You must transfer/lease your land to a younger eligible farmer, called the "farming transferee”

You must retire from commercial farming activity. This involves having your herd/flock/cereal reference number cancelled, transferred or made dormant. If you subsequently take up commercial farming, you will have to repay all of the pension payments. You may keep your house and a maximum of 10% or 1 hectare of agricultural land, but you may not use the retained area for commercial farming activity. Under new changes to the scheme, the retiring farmer may now take up insurable employment in a farming-related business. Examples of such businesses are co-ops and private companies that provide services to farmers on a contract basis, such as relief milking, silage making and hedge cutting. The retiring farmer may not, however, work on the farm from which he or she has retired or work directly for another farmer.

You must have at least 5 hectares of eligible land. Only agricultural lands owned or leased that are the subject of an SPS/Area Aid application at the date of signing of the transfer/lease documents are eligible. Land that was transferred under the earlier scheme is not eligible until a pension ceases to be payable in respect of it.

You must have practised farming for the preceding ten years and have earned at least 25% of your income from farming in the tax year prior to the transfer/lease

Where separately owned/lease lands are managed as a joint enterprise more than one pension can be paid but the combined value of the pensions cannot exceed the maximum pension payable under the scheme.

The eligible younger farmer

There are 3 types of transferee (this is the term used to describe eligible young farmers) and on the date a completed application is received in the Department of Agriculture, Food and the Marine they must:

Have appropriate farming experience and educational requirements

Undertake to continue in farming

The younger farmer must have a herd/flock/cereal number and supply a Personal Public Service Number (PPSN)

Category A transferee

This category of transferee must be approved under the Young Farmers' Installation Scheme and fulfill the conditions of that Scheme.

Category B transferee

Be between 18 and 45 years of age

Be farming a minimum of 5 hectares of enlargement land and farm an enlarged holding of at least 20 hectares (non less favoured areas) or 15 hectares (less favoured areas)

Have a non-farm income of less than €50,000 in the tax year prior to signing of the transfer/lease

Category C transferee

Have been approved as a transferee under a previous Early Retirement Scheme

Be between 45 and 50 years of age

Be farming a minimum of 5 hectares of enlargement land and farm an enlarged holding of at least 20 hectares (non less favoured areas) or 15 hectares (less favoured areas)

Workers

There is also a pension scheme for workers aged between 55 and 66 who lose their employment as a result of the farmer's early retirement.

In order to qualify, the worker must:

Be aged between 55 and 66

Have spent at least half of his/her working time as a farm worker during the previous 5 years

Have worked on the retiring farmer's holding for the equivalent of two full-time years during the 4 years before the farmer's retirement and have paid PRSI contributions in respect of the period of that employment

Undertake to stop farm work forever

Rates

Payments to Retiring Farmers

The basic rate of the Farm Retirement Pension is €9,300. A sum of €300 per hectare of agricultural land up to a maximum of 24 hectares may also be paid. The maximum payment under the Scheme is €15,000 per annum.

The pension is payable for 10 years or until the retiring farmer reaches 66.

If the retiring farmer dies, the entitlement to the remaining pension may be transferred to the spouse and/or dependent relatives in certain circumstances.

Payments to Retiring Farm Workers

The annual payment to workers is €4,000. This is payable for 10 years or up to age 66. If the worker dies, the entitlement to the remaining pension may be transferred to the spouse and/or dependent relatives in certain circumstances.

If Retired Farmer qualifies for a social welfare pension

The amount of the farm retirement scheme pension is reduced if the retired farmer, or his/her spouse/partner in the case of a joint management application, becomes entitled to one of the following social welfare pensions:

State Pension (Contributory)

State Pension (Non-Contributory)

Widow’s/Widower's (Contributory) Pension (at age 66)

Widow’s/Widower's (Non Contributory) Pension (at age 66)

State Pension (Transition) (at age 65)

Invalidity Pension (at age 66)

The total amount of the pension, including any increases for a qualified adult or child or living alone is deducted from the Farm Retirement Pension.

If you are on a means-tested social welfare payment the Farm Retirement Pension will be taken into account for that payment. However, your Farm Retirement Pension is not taken into account in the means test for non-contributory pensions for people over 66 years of age.