Members,

As farmers the one thing that we all have in common wherever we are, is the land we farm.

I learned in my first economics lesson at school that there were 3 factors of production, land, labour and capital, although in relation to modern agriculture you could also add access to technology and water availability. However I don’t believe it is a coincidence that the first factor is land. As we know it is a finite resource and hard to come by for business expansion, particularly in this part of the world. With one third of farm land in Northern Ireland rented on an annual basis, it often doesn’t provide the security of tenure needed to make investment.

There is only six inches between the human race and oblivion, the layer of topsoil covering the earth that we manage, to help feed the world’s people. Equally important is who controls the farm.

How many people in the room are under 40, and would be considered to be running their business as head of holding?

For everyone else here today that is farming and the wrong side of 40, how many of you have a clear successor in place?

Research has shown repeatedly that farmers under the age of 40 are more likely to adopt new technology and management techniques to keep their farming business efficient. In Northern Ireland we are notoriously slow to hand over the reins to the next generation and can probably think of many situations in our own area where the transfer of the farm and its assets has been poorly handled, sometimes leading to the sale of the farm or a fallout within the family.

The issue of succession within family farming businesses was the subject of my Nuffield Scholarship study in 2011. I wanted to see how the transfer of assets and responsibility could be better handled in Northern Ireland.

Here virtually all farms are owner occupied and typically run by multigenerational family partnerships – people like you and I.

I have a younger sister and brother, but don’t remember any round table discussion about who would return to take over the farm. I guess they assumed that as the eldest, I would be the farmer, although I never felt any pressure from my parents either way.

I now realise how fortunate I am, to have been given the opportunity to determine the strategic direction of our family business at an early age. I thank my parents for that and am delighted my father is here today.

Having spent many years trying to improve the policy for new farming entrants, it dawned on me the real problems usually lie within the family and without addressing issues at this level, policy will have a limited effect.

I applied for my Nuffield Scholarship to try to find ways to improve the capacity to manage change in family farms like mine, and those around me. I travelled to Australia, New Zealand, and China, as well as considering the situation in the UK, Ireland and Finland. I met inspirational families and businesses, professionals and practical farmers.

Now having completed my study, I want to share my key findings with you;

* Firstly, that good communication within farming families is crucial to avoid misunderstandings and ensures business stability,
* Next, the importance of succession planning facilitators who can assist families through the process.
* Finally, the need for adequate management training or experience for younger farm managers, supported by the most appropriate business structure.

 I felt my subject fell into two broad areas.

- The actual process of succession planning itself along with implementation.

- And secondly, how the younger generation acquire sufficient management ability to plan strategically for the future development of their family enterprise.

By adopting some of my recommendations, it may be possible to contribute to the restructuring of family farm businesses in Northern Ireland.

Both Australia and New Zealand have a much greater business focus without the level of public subsidy we experience here, as well as being forthright in expressing their opinions.

There is a culture of openness around succession planning, also known as bloodline inheritance, with less emotional attachment to a particular piece of land. Emphasis is on what makes good business sense and a realisation that nothing lasts forever.

I was however surprised to observe similarities to our situation in this country, with many family farm businesses struggling to work through a succession process.

I met some people who had done this effectively and others less so. I was surprised by how candid some of them were to an inquisitive Northern Irish farmer, talking openly about their business and private family situation.

Some had actively encouraged their children to discuss their wishes for the future, from a young age. There is no taboo around the subject of succession and all family members have a clear idea what the others are thinking.

There is no ambiguity with people getting the wrong message. Something I believe our industry would do well to adopt.

One Australian couple have introduced a board structure, holding regular business meetings along with their three sons, aged 16 to 22. It is anticipated their nine year old daughter will also become involved through time. The parents’ aim is for the children to understand the financial management of their dairy business, currently milking 900 cows on three sites, rather than just seeing the bank of “Mum and Dad”. They hope that some of the offspring might wish to get involved in the business, perhaps bringing a proposal to the board to take over one of the units.

It became clear to me where succession had been well handled in a family this was likely to be repeated, but if poorly managed this was also likely to recur.

The challenge is to break the negative cycle!

The “grey” generation may be reluctant to let go of control particularly if they didn’t get their opportunity until later in life, while the young can become increasingly frustrated through poor communication, unable to get their hands on the chequebook never mind assets such as land.

The result can be increasing friction between the generations which if not tackled can lead to a complete breakdown in relationships. Even if the parents wish to take a back seat they may not know how to address the situation, particularly if the subject has never really been discussed.

I was fortunate to meet a number of professional, succession planning facilitators who operated as independent consultants, as well as being employed by larger organisations, such as banks.

Typically these people had a legal or financial background, but also usually had mediation or counselling skills. Mostly they are engaged by the parents in a farming family, to assist with development of a succession plan and its implementation.

Each of the facilitators I met followed a similar process, by meeting all of the family members at the outset, both collectively and individually. It is seen as essential to involve non farming children or siblings, as well as partners or husbands and wives of the younger generation. This helps to defuse potential problems at an early stage by identifying niggles or jealousy between family members.

Parents usually hope to treat all children fairly, but this doesn’t mean they should be treated equally. For example, a hundred thousand pounds in cash cannot be considered equal to the same amount in farm assets. Provision for children not actively farming needs to be addressed in a practical way, although I observed little use of financial instruments such as life assurance outside the UK.

The facilitator will help the family to identify realistic goals for the process such as providing an adequate income for the parents in retirement, and who if anyone, wants to get involved in the business. The plan should be time bound, so rather than saying that I want to retire in ten years the goal should be to retire by the time I am sixty, for example.

The ability to develop a viable succession plan can depend on the type of farm. New Zealand beef and sheep businesses have experienced low returns over many years and in some cases the most appropriate outcome may be to sell the farm to allow the parents to retire with dignity, while children seek employment elsewhere.

The dairy sector has seen rapid expansion in recent years, with many family businesses now operating multiple units. This provides greater opportunity for the parents to retire by selling one farm, while some of the children may take over other sites.

One facilitator pointed out that often some of the younger generation may have worked in the business for a payment well below the minimum wage. When it comes time to split the assets this shortfall needs to be addressed, with a cash payment or a greater asset allocation.

The aim is to move forward by consensus, though often some compromise is required. It appeared the most successful plans are primarily focused on maintaining good family relationships, while securing the future of the business comes second. This is very different to the UK where tax avoidance often seems to be the main driver for generational transfer. I also came across mechanisms to protect assets from divorce for example, by using a mortgage repayable to parents in such circumstances.

My key conclusion is that every person, every family and every farm business is different. The hopes and aspirations of each of us are varied, so any succession plan needs to be tailor made for a particular family.

I believe succession facilitators have much to offer in this country.

Moving to the second aspect of my study, I realised there is little point in successfully implementing a succession strategy if the new manager isn’t up to the task. Over many years parents have gained experience of the skills needed to effectively run a large and often complex business. Typically the next generation has concentrated on the production side of the business and may not have had sufficient exposure to strategic and financial planning. They can quickly find themselves out of their depth with the family enterprise at risk.

Acquiring management ability varies with individual circumstance, perhaps gained through formal training, such as a commerce degree which is the course of choice for many in New Zealand.

Of course education isn’t everything but it helps.

 However in the UK it appears that many educational establishments are more fixated on meeting their targets for academic achievement, rather than providing the practical management skills required for the job.

In New Zealand DairyNZ and others deliver short practical management training programmes, mostly aimed at young farm managers who have already left formal education. One of the most demanded courses currently, is for Human Resource management given the expansion of many family dairy businesses and the need to employ staff.

Successors can also gain management experience through employment in other sectors such as banking or sales, before returning home, or through ongoing involvement with agricultural representative organisations or commercial businesses outside the farm.

There are different ways to set up a business.

Appropriate business structures can provide support for younger managers by ensuring the resource of parental experience isn’t lost.

Smart Group Meeting

 By creating a board structure parents can contribute to the decision making process if required, while the successor can bounce ideas off the board. This system can maintain stability while managing change. Appointing an appropriate independent chairman from outside the family may bring further benefits. However, we should all understand that smaller farm businesses can also benefit from “corporate” management structures.

Buy in consultancy

Of course it’s also possible to buy in management experience by using consultants, which is common in Great Britain but less so in Northern Ireland given our smaller farm size. Australian farmer, Brendon Smartt, advocates changing his consultant every three years or so, feeling advisors become too comfortable and tell him what he wants to hear, rather than continuing to challenge the business. Again, some food for thought!

Summary

To recap, I believe Communication, Facilitation, and Management ability, are key to improving the capacity to manage change in our family farms

I would express sincere thanks to my sponsors the Thomas Henry Foundation, who fund Northern Ireland Scholars. I would encourage anyone to apply for a Nuffield Scholarship, but remember the age limit of 45.