

# Succession Planning in Australian Farming

John Hicks  
*Charles Sturt University*

Richard Sappey  
*Charles Sturt University*

Parikshit Basu  
*Charles Sturt University, pbasu@csu.edu.au*

Deirdre Keogh  
*Charles Sturt University*

Rakesh Gupta  
*Griffith University*

Follow this and additional works at: <http://ro.uow.edu.au/aabf>  
Copyright ©2012 Australasian Accounting Business and Finance Journal and Authors.

## Recommended Citation

Hicks, John; Sappey, Richard; Basu, Parikshit; Keogh, Deirdre; and Gupta, Rakesh, Succession Planning in Australian Farming, *Australasian Accounting, Business and Finance Journal*, 6(4), 2012, 94-110.

Available at: <http://ro.uow.edu.au/aabf/vol6/iss4/7>

---

# Succession Planning in Australian Farming

## **Keywords**

Succession planning, farming, Australia, food security



# Succession Planning in Australian Farming

Richard Sappey<sup>1</sup>, John Hicks<sup>1</sup> Parikshit K Basu<sup>1</sup>, Deirdre Keogh<sup>1</sup> & Rakesh Gupta<sup>2</sup>

## Abstract

The theme of this paper is that succession planning in Australian farming is under-developed. It may be linked to economic and social change which suggests that farmers need to adapt to generational change but this is being resisted or ignored. The implications of this are the slow decline of family farming, a poor transfer of skills and knowledge to subsequent generations of farmers in some parts of the agricultural sector and the potential for an extension of the financial services industry to develop a more effective raft of succession planning measures to mitigate the effects of a traditional approach to succession in agriculture.

**Keywords:** Succession planning, farming, Australia, food security,

**JEL Codes:** G20, G23, Q14, Q15, Q18

---

<sup>1</sup> Charles Sturt University

<sup>2</sup> Griffith University

Email: pbasu@csu.edu.au

## Introduction

The main purpose of this paper is to identify and examine the principal dimensions of succession planning in Australian farming and how these relate to wider economic and social influences upon agriculture. There is a declining number of farmers with expertise to produce food at adequate levels for the Australian population regardless of exports and imports of food. This would seem to necessitate a transition of expertise from one generation to another. Given the history of Australian farming and the established platform for food production over the next three generations, the principal transfer of expertise is most likely to come from the continuation of family farming (owned and/or operated) as opposed to an increase in farm amalgamation and corporate farming. It is a reasonable assumption that the increase in population will require a considerable increase in food output. There is also the need to produce at sufficient and sustainable levels in ways which enhance rather than compromise food security. One key route to achieving necessary food production through family farming is succession planning.

Two important changes in the world have brought about changes in the way farms are managed: globalisation (Vogel 2006) and climate change (Bjornlund & Rossini 2010). Farmers are confronted by an expansion of competition across national boundaries in international markets. This shift in agriculture over the long term is increasingly characterised by products, production and distribution systems which are connected to more open and fluid international markets. The process often referred to as globalisation places increased production and financial pressure on Australian farmers. The resources at their disposal are also changing. As Bjornlund and Rossini (2010) point out, farmers are now confronted with the implications of reduced access to water. More generally, where climatic conditions come to take more unpredictable and extreme forms, planning becomes more difficult and increases the necessity for investment to be more strongly linked to farm efficiency and ultimately viability.

In general, systematic research and discussion on the succession and estate planning in Australia is very limited, especially in the farming sector. The issue of estate planning and succession becomes more important within the farming sector in Australia because of the unique nature of farming business and food security issues that has attracted the attention of the public and politics in recent times. It is expected that future world demand for food will place significant pressure on food producers. Risk of food insecurity globally in general and for Australians in particular requires greater attention to the issue of succession planning. This paper makes an attempt to focus on this particular area of importance.

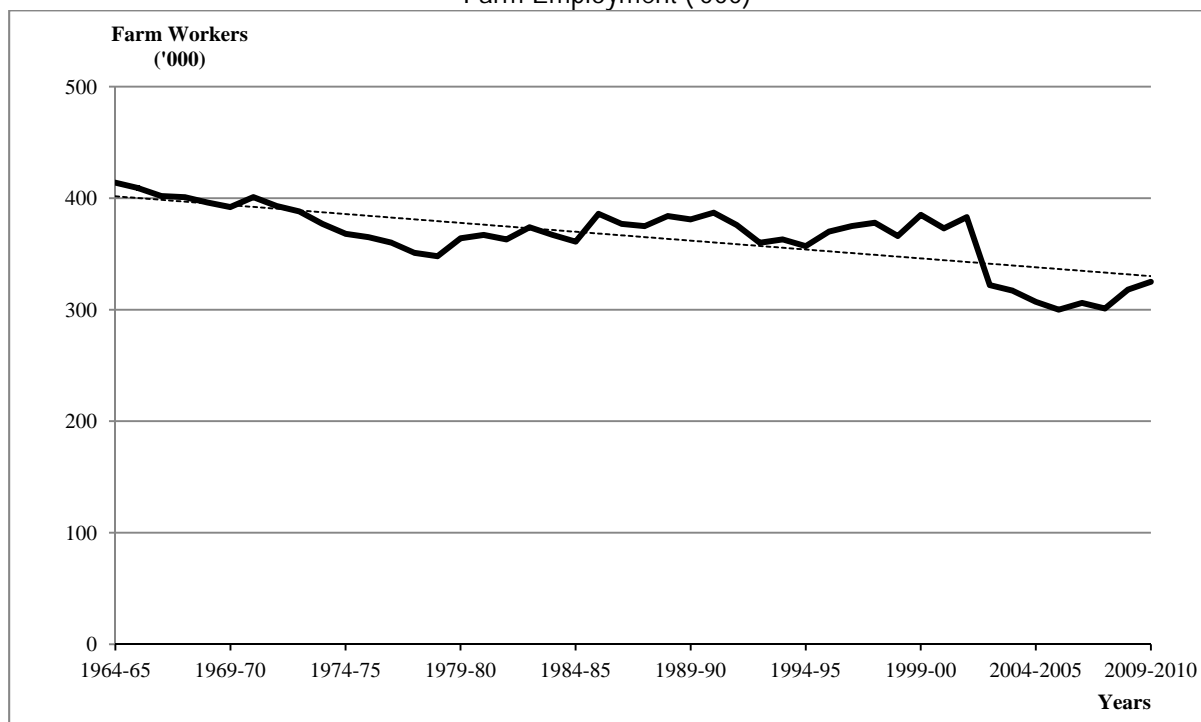
The next section of this paper explains the importance of farming in Australia and for its regions; while the third section analyses the context of family farms. The fourth section contains a detailed and critical analysis of succession planning issues in the Australian farming sector including the possible impacts on social change. The final section summarises the conclusions.

## The Importance of Farming to Australia

In 2009-10, farm production accounted for 2.2% of Australia's GDP, down from around 3% in the mid-1970s (Australian Bureau of Agricultural and Resources Economics and Sciences (ABARES) 2010). At this time, farm employment was barely 3% of total employment down from 6% in 1974-75 (ABARES 2010). The data in Figure 1 shows that over the period from the mid-1960s aggregate farm employment appears to have gone through four stages. The first stage was one of steady decline from over 400,000 in 1964-65 to just under 350,000 in 1978-79. The second stage was a period of relative stability as the number of workers on

farms fluctuated around 375,000, but never falling below 350,000 nor rising above 400,000 for a period of 23 years from 1979-80. The third stage, however, witnessed a significant and rapid fall in farm employment from 2001-2 to a nadir of 300,000 in 2005-6, no doubt partially the outcome of several years of drought. The years 2008-9 and 2009-10 have shown a modest recovery.

Figure 1  
Farm Employment ('000)



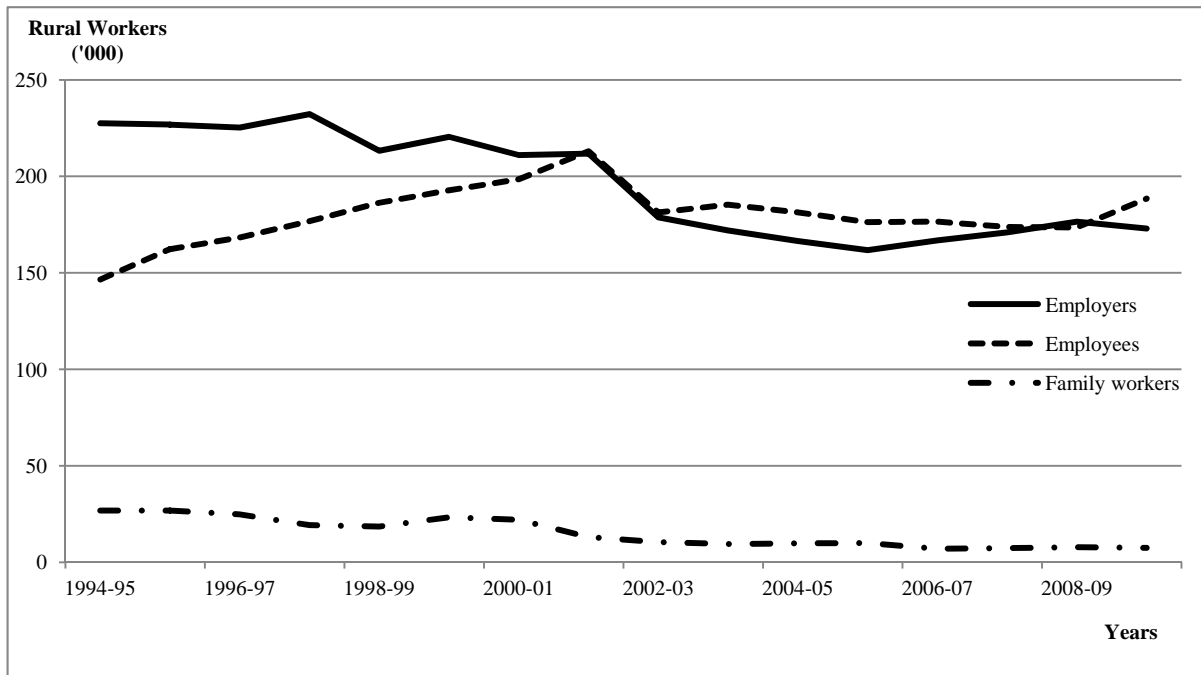
Source: ABARES 2010

Overall, there has been a decline in the number of employers and self-employed in the rural sector (which, although including forestry, fishing and hunting, is primarily agricultural employment) and there has also been a considerable 72% fall in the number of contributing family workers (Figure 2). Predictions of future employment in agriculture are dire. Barr (2000) forecasts, for example, that as few as 100,000 people will remain employed in farming by 2021. If accurate, this constitutes a reduction of 55% from 1996.

Farming's importance as an export earner is also in decline, accounting for just over 11% of Australia's export earnings in 2009-10 compared with nearly 26% in 1974/75 (ABARES 2010). Also, since the mid-1970s, nearly 100 million hectares of land have been lost to farming and the number of agricultural establishments has fallen from 182,250 to 135,996 in 2008/09. (ABARES 2010). However, farming still accounts for about 60% of land use in Australia (Hamblin 2009 and Australian Government 2011).

Given the foregoing, does there remain an argument that farming is important for Australia? There are two reasons to answer this in the affirmative. The first is the historical importance of farming and the development of the Australian farming culture. The second is that farming remains extremely important in those regions where it is practiced and those regions cover the majority of the Australian land mass.

Figure 2  
Rural Workers\* ('000)



\*including agriculture, forestry, hunting and associated services  
Source: ABARES 2010

*The History of Farming and Farming Culture*

What distinguishes farming from other economic activity is that it constitutes the most basic productive form of human sustainability and, to that extent, brings with it a combination of economic significance and emotional attachment. Together, this provides the foundation for a social significance as evidenced by the growth of social capital in rural communities. The majority of Australian farms are ‘family farms’ (Kilpatrick 2000) and occupational succession is a key characteristic of Australian farming life (Gray 2000).

What distinguishes family farms from corporate farming is the emotional attachment to the act of farming and the hub of family life. A key to understanding this attachment is that family farms have often remained in the same family for several generations. In terms of property ownership, family farms are to be distinguished from other types of homes because they are sources of income through the occupation of farming (i.e. home and work are one and the same) and are not treated as building and land which come to be valued as real estate in a more transient form of market. Regardless of the relative status of the occupation, the fact that farming is inseparable from the land on which it is carried out and from the place where farming families also live has quite different implications, both economic and social, for intergenerational relations compared to non-farming families.

*The Importance of Farming to the Regions*

The importance of farming to farming regions is highlighted by the fact that when employment in capital cities is removed from the analysis, agriculture, fishing and forestry accounts for 6.4% of Australian employment. For the states, the relevant figures are NSW, 6.0%, Victoria, 7.0%, Queensland 5.7%, South Australia, 14.0%, Western Australia 8.8% and Tasmania, 8.7% (Australian Bureau of Statistics (ABS) 2011b). Obviously, when broken

down into yet smaller geographical regions there will be areas of Australia in which farming is extremely important. For example, at the time of the 2006 Census, the agriculture, forestry and fisheries category ranked second only to services as an employer of labour in five of the 12 NSW Statistical Divisions with the Northern Statistical Division having the highest ratio with 16.9% employed in non-mining primary production, down from 19.3% in 2001 (ABS 2006a) indicating that although still important, agriculture even in these areas was declining.

In farming regions, the importance of farming cannot be understated. In many respects the existence of these regions is dependent on farming. Farmers are reported to spend a high percentage of their income in the regions in which they are located (Garnaut et al. 2001, p52).

### Family Farms in Context

There are three general types of ownership of Australian farms: family; company and corporate. The distinctions are not legal but rather signify the relationship between ownership and control. Family farms are owned and controlled by (usually) one family, importantly often including members of two or more generations with the distinguishing characteristic of the farm being that it provides total or partial income for the whole family and, generally speaking, where the farm is the home. Company farms are defined as farms which are also largely or completely owned and controlled by one family but where the farm is operated as a business and where the business dominates the farm for the purpose of generating capital accumulation. Here, the farm is treated as an asset which may be sold on the basis of business decision-making, may or may not be the home of the family, employs permanent labour and is anticipated by the owners to be in the process of business growth through investment and the acquisition of other farms. Corporate farms are defined as those which are owned by shareholders and controlled by professional managers. They have similar characteristics to company farms but exclude substantial ownership and/or control on the part of one family. Usually the greater the size in terms of asset value, the more likely it is that that a farm will move away from the family farm type and towards corporate farm type.

There is clearly some overlap between these types which means that it is more illuminating to add criteria. Australian farms have traditionally been family businesses and passed on from generation to generation (Australian Government 2011). However, in accordance with the data quoted above, the number of family farms is reported to be declining and the average size of farms has been increasing. In the background data provided for the Australia 2020 Summit (Australian Government 2008), we are told that the Australian population of farmers is ageing. The largest age group is 65+ years and the average age of farmers is now 55 years. Foskey (2005) noted that 25% of farm owners were 65 years or older compared with only 5% of owner/managers in all other industries.

Productivity may be measured theoretically by comparing total output (e.g. stock, crops) to inputs, either individual factor (e.g. unit of labour) or multifactor productivity (MFP) factors (land, labour and capital) (Productivity Commission 2005, pp115-118). Thus, it may be that a measure of productivity is crop yield or stock at farm gate per hectare per unit of labour per unit of other inputs. Productivity can be increased by increasing output and maintaining or reducing inputs or maintaining output at a given level and reducing inputs. In an economic sense, the determination of productivity is enhanced by adding costs to inputs (e.g. fertilizer) and prices to output (e.g. terms of trade) to arrive at a figure for the rate of return on invested capital. It is an assumption that the quality of inputs and output is taken into account through final price. Clearly, farmers can and do estimate the performance of their farms including the productivity of them when they compare through testing a wide

range of inputs (e.g. changing types of drench for stock, harvesting equipment and methods of weed eradication).

For the purposes of this paper, when a farm changes hands, either through sale to a new owner or inheritance, one key question is to what extent is productivity and overall performance (e.g. as measured by annual farm income or annual rate of return on invested capital) affected? It is reasonable to pose this question because experience with, and knowledge of, climatic conditions, changes in soils, yields and stock per paddock, changes in water levels and quality and differing types of crops, stock and chemicals influence productivity. Some other factors are more related to generic skills and knowledge (e.g. maintaining and repairing equipment, particular weed eradication). This latter group of factors usually means transfer of ownership is less likely to result in productivity decline than is the first group which is related to a particular farm.

The distribution of farm type has shifted (Expert Social Panel 2008; Productivity Commission 2007, pp31-35) giving rise to attempts to trace and explain the structure of agricultural industry. Family farm numbers have declined in absolute terms (ABS 2006b) and small farms (0-499 hectares) as a percentage of all farms. There has long been a decline in the employment share of agriculture (ABS 2008) (self-employed, employed and related (usually town) work). There has also been a rise in corporate farming (Neil Clark & Associates 2008). This reflects a shift in industry concentration of farming by ownership type and farmed land, moving away from small holdings to large and/or corporate holdings (Productivity Commission 2005, pp39-41). There are a number of possible reasons for this including the need for larger investment sums for relatively high levels of productivity which are based on more productive and higher cost inputs such as equipment, irrigation infrastructure, chemicals and scientific techniques related to disease prevention and treatment. These may be start-up costs or transformation costs in the case of acquiring existing farms. Corporate farming is increasingly a part of the longer supply chain process. Economies of scale are within the farm and extend to external links to an expanded range of services which may be purchased to monitor and enhance performance and develop markets. Established small family farms in traditional livestock and broadacre agriculture (as opposed to new and specialised niche farming) are in a less advantageous position by comparison with corporate farms in this respect. In addition, as farming becomes more diversified, international and competitive, the advantages of corporate farming over small family farms, is more apparent. For these reasons, the trend seems more likely than not to continue.

Family farming has also been confronted by social change which has altered the expectations of farm family life. These changes include gender and intergenerational relationships and job and career opportunities away from farming, in particular connected to the need for off-farm income for women married to farm men and children leaving school. These changes are part of the promotion of and rise in consumption in forms of a wider range of products and lifestyles, associated with increased levels of occupational, geographic and social mobility.

The decline in the number of family farms, however, is clearly a slow process because of the value of family, community and farm life. To some extent this may be associated with work independence, as opposed to being employed, and being engaged in work which is not constrained by office walls and set, rule-based routines. Resistance to pressures to move from farming is apparent in many countries, particularly in Europe and North America, and accounts for the political activity directed at retaining farming in its family forms.

Therefore, for economic, political and social reasons, family farming, which was once an important feature of industrialised societies, is in slow decline but strong resistance exists in Australia. This, in itself, is an interesting phenomenon. However, beyond that, the



continuation of family farming remains important for shoring up societies in times of food insecurity and minimising dependence on other countries.

To the extent that family farming continues to be perceived as a necessary bulwark in a global risk society, even if it is part of a transition phase to another form of farm ownership, that continuation is further hampered by problems with a system of arrangements for transferring family farming between generations. Prima facie evidence indicates that succession is not significantly discussed by farm families so there is a lack of preparedness for sudden change (e.g. a son leaving the farm for preferred employment in a city). Particularly problematic is a change in the family as a result of conflict (e.g. divorce) and the implications for ownership and income. One possible advantage of succession planning is that unforeseen circumstances revolving around family structure and decisions can be addressed.

### The Next Generation of Farmers and Stages of Succession

An important question is: what are the levels and forms of succession arrangements in Australian farming and how do these arrangements prepare Australian farms with the necessary expertise to grow food output at sustainable levels over the next twenty years?

There are a number of dimensions to succession planning by which is meant the development of a business plan prior to the death or retirement of the existing farm owners, as distinct from inheritance planning, usually taking the main form of a will where ownership is transferred to a subsequent generation upon death. The issues are ownership, income and operations. How these are transferred and the types of decisions that are made influence the transfer of skills, knowledge and understanding.

Sociologists have identified several distinct stages of succession (Vogel 2006) but not all agree on precisely what these stages are. Generally, the first stage is the development of the farmer's retirement plan. The second stage is identifying the successor. Stage three involves the gradual transfer of control to the identified successor and the consequences of this on all parties concerned. A fourth stage occurs when the legal transfer of the property is made. Stages five and six involve the changes that are made to the business by the successor and the impact of this on the rest of the family.

#### *Retirement Plan*

For a farmer who has spent the best part of her or his working life working the farm and deriving a living from it, a number of important questions arise. What are the sources of income after retirement? Will they still get some income from the farm? Will they be self-sufficient? Answers to these questions are likely to be provided by the retirement plan. A major issue is when does this process of developing a retirement plan start? Ideally, the retirement plan will be an extension of the farm's business plan. However, a formal business plan is often not prepared. Tanewski, Romano and Symrnios (2000) found that older farmers and farmers on marginal farms did not develop sophisticated business plans. Given this, it is to be expected that the development of workable retirement plans would also be rare.

This is certainly what has been found overseas. Baker, Duffy & Lamberti (2001) found that although their Iowa interviewees were in their mid-fifties, many (71%) of those who said that they planned to retire (at an average age of 66) had not yet identified their successor. That is, starting from scratch, they had only twelve years to put a retirement plan in place. Further, Baker et al. (2001) found that 27% of the farmers interviewed did not plan to retire. This is a somewhat worrying finding as it suggests that these farmers are not prepared to face the eventuality of ageing and may, therefore, have made little, or no,

provision for old age. For those who did plan to retire, a significant proportion of their retirement income was expected to come from the sale of the farm.

In Australia, Barclay, Foskey and Reeve (2007) found that farmers are apparently planning to move into semi retirement at around the age of 65 years. Interestingly, they argue that this is older than the planned retirement age for farmers in Canada, France and England. The preferred age for full retirement for Australian farmers was 70 or older. However, it is not clear what dynamics have led to this expressed intention. The survey was conducted in 2007. At this point in time, Australia was firmly in the grip of a major drought. The impact of the preceding five or six years of drought may have caused farmers to significantly reassess their circumstances with respect to retirement – or indeed their financial ability to retire. As with farmers in the US study, Barclay et al. found that rarely will Australian farmers begin to consider issues of succession until they are in their early 50s. For farmers on smaller farms it tends to be later. On extremely large farms it may not happen at all because of the corporate nature of many of these operations.

Foskey (2005, p52) reported on two studies from the late 1990s, both of which indicated a serious problem in the making. She noted Riley's (1999) work which indicated that only 49% of specialist beef producers had a well-defined succession plan. The ability to put in place an appropriate succession plan appeared to be hampered by an inability of farming families to effectively communicate across the generations as observed by Kaine, Crosby and Stayner (1997). This was an issue, she noted, that had also been picked up on by others.

In developing a retirement plan, it is usually considered important to utilise the help of professionals. The question arises: did farmers who had retirement plans (even if developed late in life) make use of such assistance? The evidence suggests that obtaining professional advice regarding succession is rare amongst farmers overseas. Baker et al. (2001) found that over fifty% of respondents sought no advice. Of those seeking advice, over eighty% sought advice from other family members. In Australia, the situation seems to be a little better, only twelve% of respondents have not discussed succession with anyone (Barclay et al. 2007).

However, although the proportion of farmers that had not discussed succession with anyone is low, care needs to be taken with what this actually means. Gamble et al. (1995) and Gamble and Blunden (2004) (both cited by Barclay et al. (2007, p11) are two studies which draw attention to this fact. Both studies found that the older generation believed that succession was something they had to deal with without consulting other members of the family and without engaging professional advisors. The younger generation, on the other hand, expressed a strong wish to be consulted as, in many respects, it was their future that was at stake. A major issue here was the farmer making decisions without having any idea of the desires and aspirations of their potential successors. Haslam-McKenzie (cited in Barclay et al. 2007, pp11 and 12) reported that very few farms have a succession plan in place. And even when there is a succession plan in place, little discussion has taken place amongst the family during its development. This often results in a breakup of the farm and a breakup of the family.

For farmers, the retirement decision is complex. Gamble et al. 1995 (cited in Barclay et al. 2007, p1) argue that the retirement plan has to (1) treat all of the children equally and fairly, (2) maintain the farm as a going business and (3) meet the financial needs of the retiring farmer. The issues and problems that arise in trying to meet each of these goals are legion and Barclay et al (2007, p.1) (citing Symes 1990) argue that if success is going to be achieved then a long term clearly defined strategy needs to be put into place. Barclay et al. (2007) go on to argue that since the medium age of farmers (in 2007) was 51, the next decade

would witness a significant number of retirements with farms being handed on to the next generation or sold.

Financial considerations are a major concern in determining attitudes towards retirement. In a period of drought the financial ability to retire is brought into question. Drought will lower the returns on farms and hence the value of the farm itself (Barclay et al. 2007; Barr 2000; Foskey 2005; Hicks et al. 2008). Farmers who find themselves in such circumstances are therefore forced to work on long after they would have chosen to retire. Further, their potential successors would not be able to take on the farm as the debts they would incur in doing so would be unlikely to be repaid. Foskey 2005 indicates that financial provision for the future usually takes second place to farm maintenance whenever there are any surplus funds available.

Foskey (2002) (cited in Barclay et al. 2007, p9) indicates that Australian farmers tended to have a less than positive view of the concept of retirement. She argued that retirement did not fit in with their life view of a work ethic. From this we can conclude that it might be extremely difficult to get Australian farmers to talk about a retirement plan. The role models that many farmers have of retirees may also reinforce this negative view of retirement. Foskey (2005) points out that many retired farmers appear to have lost a sense of purpose. Without a positive attitude and a planned approach to retirement, unnecessary difficulties may arise. Lack of interest in staying up to date with farm management practices may eventually put the farm business at risk and make surviving in the business more difficult for any potential successor (see Barclay et al 2007).

### *Identification of Successor*

One of the critical aspects of any succession plan is that there is actually someone to succeed. What proportion of farmers have identified a successor? Does this differ between different types of farmers? What qualifications will the proposed successor have? What qualifications should they have?

Ball and Wiley (2005) draw our attention to the fact that identifying a successor is often made more difficult by farming parents who take decisions that actively discourage farming children from pursuing life on the farm. Even without such parental guidance, young people themselves may be making a decision not to pursue farming. The evidence for this can be seen in the changing demographics and labour markets of farming areas.

In Australia, Barclay et al. (2007) found that farmers tended to encourage both sons and daughters to pursue tertiary education. For daughters, investment in education by the parents was in part compensation for the fact that they were not likely to be the successor. Succession was largely reserved for sons – if they chose to come back to the farm. Parents tended to encourage both sons and daughters to gain qualifications outside of farming. These findings were supported by Crockett (2004) whose respondents were generally reluctant to encourage children to pursue farming as a career and who encouraged their children to obtain an education in an alternative profession.

The fact that normally there can only be one successor creates an additional problem. Typically, the successor is required to ‘buy out’ those who are not going to inherit the farm. But the terms set need to be carefully considered if all parties are going to be treated fairly and if the farm is going to be maintained as a going concern.

Barclay et al. (2007) indicate that over 50% of their Australian respondents had identified their successor. In Australia, farmers from an Anglo-Saxon background were typically of the view that there should only be one successor. This, they felt, was the best way of ensuring that the farm, which had often been in the same family for many generations, could be maintained under family control. Barclay et al. (2007) found that farmers from other

than Anglo-Saxon backgrounds had a much stronger preference for ensuring an equal distribution in regards to inheritance.

In general, US research has indicated that those who have been identified as successors will typically have some formal education. About a quarter will have a university degree and about forty-five% will have a trade or technical qualification. A minority of learning to farm is the result of on-the-job training rather than higher or technical education (Baker et al. 2001). However, initial on-the-job training and on-the-job training following formal education is typically undertaken away from the farm that they will eventually manage. Sixty two% of identified successors were engaged away from the farm that they would eventually manage. This does not tend to be the case in Australia. Like England and Canada, identified successors tended to take what Barclay et al. (2007) referred to as the direct route. Australian successors tend to work side by side with the farmer and the older generation on the family farm.

However, the data suggests that succession has been decreasing in Australia (Garnaut & Helati 1999). Reeve (2001) (cited by Foskey 2005, p53) has argued that between 1991 and 2000 the proportion of farmers farming land that had been farmed by their parents or parents-in-law had fallen from 61% to 57%. In this study around 60% of farmers could not state that they expected the farm to pass on to the next generation of their family. Foskey (2005, p54) however, brings out an important point, noting that on evidence provided by Reeve and Stayner (2002) only a small proportion of first time buyers of farming land did not have a farming background. However, it is not clear if this trend will continue. Mendham and Curtis (2010) predicted a 50% change in property ownership in the next decade.

#### *The Impact of Farm Assets on Retirement Plans and Choice of Successor*

The raw data discussed in the second and third sections calls into question the number of farms that can be handed on down to family members and remain viable operations. Gale (2003) and Williams and Farrington (2006) (both cited in Calus, Van Huylbroek and Van Lierde 2008, p40) argue that increasing capital requirements and lower expected returns are seen as structural changes that will limit the number of farms that can be passed on. The conundrum is that higher off-farm earning potential combined with the increasing costs and falling returns from farming sees younger family members not taking up farming, is giving rise to an ageing farming group. At the same time, it is only through the injection of youth that the farming sector in general is likely to be made more productive.

Succession decisions need to take into account the value of the assets that are to be transferred. Calus et al. (2008) and Calus and Van Huylbroek (2008) have emphasised that the value of fixed assets will determine the likelihood of succession. They argue that where a farmer has identified a successor, there is likely to be a greater investment in fixed assets. These findings supported those of Tanewski et al. (2000) who found in their Australian study that farmers with a positive long term view of the viability of their farm and who intended that their children would succeed them were associated with farms that were growing and, therefore, with the building up of assets. Farmers usually have to decide the level of assets necessary for succession to prevail over the sale of the property. Land, of course, is the most significant asset. Hennessy (2002) shows that the amount of land represented by the farm was a significant predictor of likely succession. That is, on larger farms, one was more likely to observe a successor taking over. The probability of the successor taking over fell significantly as the income on the farm fell.

Glauben et al. (2009) provide a more detailed econometric analysis of the decision to pass the farm on through intra-family succession or to close it. Again, it is the larger more profitable farms that are likely to have an intra-family successor. The non-agricultural

education of the farmer and the successor is likely to delay the succession decision because, for both, non-agricultural education implies that they are capable of generating income outside the farm. For the farmer this will mean that part-time farming becomes viable where off-farm income can supplement the earnings of the farm. Similarly, they found that if the farm was to be sold, the existence of non-agricultural education for the farmer delays the decision to sell.

A complicating factor in assisting succession planning is the increasing proportion of farmers that are becoming part time farmers. Reeve (2001) (cited in Foskey 2005, p52) reports data that indicates that 30% of responding farmers depended on off-farm income to maintain their standard of living. Barr (2000) argued that many farmers needed to access off-farm income if they were to generate an income commensurate with that of other occupations. Hennessee (2002,) argues that many research studies have shown that becoming a part time farmer is often associated with falling farm incomes where the farmer attempts to supplement farm income by taking on a job elsewhere. Where the farmer needs to take on a non-farm job to supplement farm income, the question needs to be asked if the farm is likely to be a viable farm in the hands of a successor?

### *Transfer of Control*

Where there is a retirement plan in place, where a successor willing to take on the farm has been identified and where the assets of the operation are likely to make it viable into the future, how should the transfer actually proceed? Beginning the process of transferring control is typically made more difficult by the fact that the successor is often employed off-farm. A high proportion of farming is a sole proprietor operation. This is often because the business is not large enough to sustain anything else. The decision to hand over control completely is often delayed by the farmer insisting on maintaining control and continuing to participate in the running of the farm. As Baker et al. (2001) point out this may, at least in part, result from the expectation of the farmer that future income was at least going to be partially drawn from farm income.

In the case of Australia, a complicating factor is Australian tax law. Maintaining ownership of the farm will, in most cases, prevent retiring farmers from accessing the pension. However, giving up the security represented by farm ownership is not seen as being a viable option. Australian farmers appear to find giving up control quite difficult. According to Barclay et al. (2007), transfer of managerial responsibility to successors occurs at a much slower rate than is the case in other countries. This may be because they are still dependent on farm income to some extent. In many cases, full legal ownership is not transferred to the successor until after the death of the farmer. Thus, transfer of financial control and control over the long-term nature of the enterprise can be significantly delayed.

Errington (2002) refers to successive stages in the handover of control to the successor as like moving up different rungs of a ladder. In the UK this process is rather slow compared to the transition process in France and Canada. Handover begins with the successor being responsible for primarily technical decisions moving on through tactical, strategic, supervisory and control of the purse strings. Errington (2002) identifies three stages of transfer: succession, retirement and inheritance. Succession is viewed as managerial control which is gradually handed over. Retirement is associated with the owner withdrawing from active participation in the business of the farm. Inheritance is the final stage when all of the assets are finally signed over to the successor (Taylor, Norris & Howard 1998).

There are different forms of pre-retirement ownership transfer that exist in farming. The main forms are:

- the employment of the owner's children on farms (i.e. through wage payment)
- the establishment of a trust
- the establishment of the farm as a company (some recent literature suggests a separation of the land from the business)
- purchase of the farm by the children
- transfer of the farm to the children

Each of these forms of succession arrangements (and others) has ownership implications for different generations of the family. There are also income implications, such as at what point the children receive income and the type of income. There are also operational issues, such as at what point in the succession process different generations can (or can't) make decisions in relation to the selection of stock and crops, the purchase of capital equipment (e.g. harvesters), expenditure on new permanent infrastructure (e.g. dams, pumping systems), purchase of additional land or sale of existing land, place and timing of selling product, whether to employ labour and whether to go to off-farm income. Such income and operational decisions themselves have implications for which skills and knowledge to retain, discard and outsource. Given that farming has an increasing inventory of skills and knowledge, any transfer is likely to be supplemented by external education.

It is possible that the above list of transfer options can be matched with the circumstances of individual farms and those who own them, including preferences as to where to live in the latter working years and post-retirement, the distribution of relative shares in the business and property both between and within generations and the distribution of decision-making and the types of decisions. However, such a guide to succession planning is unlikely except in very general terms because of the diversity of individual circumstances and preferences.

What is known is that there has been a decline in small family farming and a rise in other forms of farming which taken together are large by any measure and by historical comparison with mainstream farming which was family farming in Australia. We can be reasonably certain as to the broad causes of this change. We can also be sure that those family farms that persist are doing so by using a range of methods to generate sufficient output and income from various sources. For the most part, these are technical, production and business decisions including non-farm production (farm holiday accommodation, off-farm income, selling directly through farmers markets and selling assets, particularly land for peri-urban housing). The bulk of the research relies on the development of extensive reporting which is consolidated into statistical information and analysis. We have, as a result, an extensive knowledge of the economic, demographic and social dimensions of farming. We have a growing knowledge of the reasons for changes in these dimensions of farming, at least in a form that enables analysis to be undertaken and reasoned conclusions to be drawn. This includes the transition of ownership between generations, including the extent of succession planning and the forms that it is taking. What we don't know is what is gained and what is lost in this transition process. The gains are in farm performance. The losses are in skills, knowledge and understandings which should affect productivity and ultimately reduce farm performance. Relatedly, we don't know if the end of farm ownership through sale results in decreased or increased farm performance (e.g. through economies of scale, adoption of more productive inputs and techniques and more efficient supply chain and marketing arrangements).

The broader context includes questions about the options for Australian farming in terms of the structure of industry (distribution by size – e.g. large vs small) and the distribution of ownership (e.g. foreign vs domestic; family vs corporate). As the farm sector

becomes increasingly integrated with international trading systems and pressures emerge to change farming practice (e.g. consumer awareness of the carbon footprint journey from farm gate to supermarket and treatment of animals) the overarching questions relate to how to maintain national food security while complying with obligations to accept international competition (e.g. accepting higher rates of imported food).

### *Social Change and Family Farming*

The wider context for succession is the shift away from family structures and the respective roles of men and women in farming. To some degree, these roles have tended to be prescribed in terms of division of labour and laden with assumptions as to roles. The increased participation rates of women in the labour force and higher levels of education may reasonably be expected to challenge traditional roles where these exist in farming. In so doing, particularly where one potential successor comes from a non-farming background, the challenge is to both future roles of men and women and to the ownership of the property to be inherited. Foskey (2005) suggests that the social and family aspects of succession planning may be such that decisions are made which reduce the viability of the farm as there is always tension between appropriate business decisions and desired family outcomes.

Family farming in Australia is declining, at least in terms relative to other types of farming, if the usual industry measures are applied (number of farms over time, income, farm size, output, exports, employment, demography). An important implication of social and economic change which can be easily overlooked is that a significant and persistent socio-economic feature of the Australian nation is losing its influence and the emotional attachment it once had and which was a prime source of national identity and one which provided an anchor for unity through social bonds. For almost all of European Australian history it congealed city and country and it is that glue which is increasingly melting. Australia is now different because of it and the signs are that the trend will continue and that there will be no turning back.

### Conclusion

The literature to date paints a picture of the slow decline of family farming in Australia and the important consequential effect of a problem with the transition in established livestock and broadacre agriculture from one generation to another. A variety of changes within agriculture itself but also social and economic change is influencing the continuity of the family farm and bringing about problems including family conflict in the transition process. A key to understanding this is the inseparable nature of family farms as both sources of income and family homes often with strong emotional attachment.

While much of the literature points to an underdevelopment of succession planning, in part because people find difficulty in dealing with succession in a changing world, their most significant implication is that succession planning would seem to require more change to adapt to this new world. In particular, and despite anecdotal evidence of the financial planning industry moving to develop higher levels of skill and knowledge which can be effectively applied to farming, it would appear that traditional professional services such as legal and accounting need to be supplemented by communication and mediation as parts of packages to be offered to farmers. The other implication is that traditional attitudes to succession may have to change in order to make the transition between generations less costly, more efficient and less conflictual.

## References

- Australian Bureau of Agricultural and Resource Economics and Sciences (ABARES) 2010, *Australian Commodity Statistics 2010*, accessed 28/10/2011, [http://adl.brs.gov.au/data/warehouse/pe\\_abares99001762/ACS\\_2010.pdf](http://adl.brs.gov.au/data/warehouse/pe_abares99001762/ACS_2010.pdf)
- Australian Bureau of Statistics (ABS) 2006a, *Census of Population and Housing*, Cat. No. 2068.0, 2006 Census Tables, Industry of Employment by Age and Sex (various), accessed 1/9/2010 <http://www.abs.gov.au/websitedbs/d3310114.nsf/home/census+data>.
- Australian Bureau of Statistics (ABS) 2006b, *Agriculture in Focus: Farming Families, Australia, 2006*. Cat No. 7104.0.55.001, accessed 29/10/2011 <http://www.abs.gov.au/ausstats/abs@.nsf/Latestproducts/7104.0.55.001Main%20Features12006?opendocument&tabname=Summary&prodno=7104.0.55.001&issue=2006&num=&view=>
- Australian Bureau of Statistics (ABS) 2008, *Year Book Australia, 2008* Cat. No. 1301.0, accessed 23/10/2011 <http://www.abs.gov.au/ausstats/abs@.nsf/0/B995EE21BC6844BFCA25728E0014D682?OpenDocument>
- Australian Bureau of Statistics (ABS) (2011a) *Australian farming in brief*, Cat. No. 7106.0, accessed 23/10/2011 <http://www.abs.gov.au/ausstats/abs@.nsf/Lookup/7106.0Main+Features62011>>
- Australian Bureau of Statistics (ABS) 2011b, *Labour Force Australia*, Cat. No. 6291.0.55.003, Data Cube RQ1\_nov07 - Employed Persons by Region, Sex, Industry - from November 2007, accessed 29/10/2011 <http://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/6291.0.55.003Aug%202011?OpenDocument>
- Australian Government 2008, *Australia 2020 Summit: The Future of Rural and Regional Australia*.
- Australian Government (2011) *Australian Farms and Farming Communities*, accessed 26/10/2011 <http://australia.gov.au/about-australia/australian-story/austn-farms-and-farming-communities>
- Baker, J, Duffy, MD & Lamberti, A 2001, 'Farm succession in Iowa' Working Paper, Beginning Farmer Center, Iowa State University, accessed 13/10/11 <http://www2.econ.iastate.edu/faculty/duffy/pages/farmsuccession.pdf>
- Ball, A & Wiley, A 2005, 'The aspirations of farm parents and pre-adolescent children for generational succession of the family farm' *Journal of Agricultural Education* vol.46, no.2, pp36-46.
- Barclay, E, Foskey, R & Reeve, I 2007, *Farm Succession and Inheritance – Comparing Australian and International Trends*, A report for the Rural Industries Research and Development Corporation, RIRDC Publication No.07/066.



- Barr, N 2000, *Structural Change in Australian Agriculture*, Natural Resources and Environment Victoria, Theme 6, Project 3.4, accessed 23/10/2011, <http://www.anra.gov.au/topics/people/pubs/national/theme6-3-4-2.pdf>
- Bjornlund, H & Rossini, P 2010, 'Climate change, water scarcity and water markets – implications for farmers' wealth and farm succession', paper presented to the 16<sup>th</sup> Pacific Rim Real Estate Society Conference, Wellington New Zealand, January 2010.
- Calus, M & Van Huylbroek, G 2008, 'The succession effect within management decisions of family farms', 12<sup>th</sup> Congress of the European Association of Agricultural economists – EAAE 2008.
- Calus, M, Van Huylbroek, G & Van Lierde, D 2008, 'The relationship between farm succession and farm assets on Belgian farms' *Sociologia Ruralis*, vol.48, no.1, pp38-56.
- Crockett, J 2004, 'The nature of farm succession in three New South Wales communities', *AFBM Journal*, vol.1, no.1, pp14–27.
- Errington, A 2002, 'Handing over the reins: A comparative study of intergenerational farm transfers in England, France and Canada', paper prepared for presentation at the X<sup>th</sup> EAAE Congress, Exploring Diversity in the European Agri-Food System' Zaragoza (Spain) 28-31 August, 2002.
- Foskey, R 2005, *Older Farmers and Retirement*, RIRDC Publication No 05/006
- Garnaut, J & Helati, S 1999, *Age Profiles of Australian Broadacre and Dairy Farmers*, *Australian Farm Surveys Report 1999*, Australian Bureau of Agricultural and Resource Economics (ABARE), Canberra.
- Garnaut, J, Connell, P, Lindsay, R & Rodriguez, V 2001, *Country Australia: Influences on Employment and Population Growth*, ABARE Research Report 2001.1 Canberra.
- Glauben, T, Petrick, M, Tietje, H & Weiss, C 2009, 'Probability and timing of succession or closure in family farms: a switching regression analysis of farm households in Germany', *Applied Economics* vol.41, pp54-55.
- Gray, I 2000 'The contrasting traditions of farming and railway work in Australian rural communities', *Rural Society*, vol.10, no.3, pp329-340.
- Hamblin, A 2009, 'Policy directions for agricultural land use in Australia and other post-industrial economies', *Land Use Policy*, vol. 26, pp1195-1204.
- Hennessy, T 2002, 'Modelling succession on Irish dairy farms' paper prepared for presentation at the X<sup>th</sup> EAAE Congress, Exploring Diversity in the European Agri-Food System' Zaragoza (Spain) 28-31 August, 2002.
- Hicks, J, Basu, PK & Sappey, RB 2008 '55+ and working in an established rural regional Australian labour market', *Employment Relations Record*, vol.8, no.1, pp1-16.
- Kaine, G.W., Crosby, E.M. and Stayner, R.A. 1997 *Succession and Inheritance on Australian Family Farms*, TRDC Publication No. 198, The Rural Development Centre, University of New England, Armidale, NSW.
- Kilpatrick, S 2000 *Education and training: impacts on farm management practice* Centre for Research and Learning in Regional Australia, accessed 31/10/2011 <http://www.crlra.utas.edu.au/files/discussion/2000/D03-2000.pdf>

- Mendham, E & Curtis, A 2010 'Taking over the reins: trends and impacts of changes in rural property ownership' *Society and Natural Resources*, vol.23, pp653-668.
- Neil Clark & Associates 2008 *Corporate Farming in Australia*, Bendigo.
- Productivity Commission 2005, *Trends in Australian Agriculture*, Commission Research Paper, accessed 23/10/11, <http://www.pc.gov.au/research/commission/agriculture>
- Reeve, I & Stayner, R 2002, 'Human dimensions of structural change', Draft Issues Paper No. 4, Murray-Darling Basin Commission Project MP 2004, *Agriculture and Natural Resource Management in the Murray-Darling Basin: A Policy History and Analysis*, Institute for Rural Futures, Armidale.
- Riley, D 1999 'Australian beef industry farmers' attitudes and practices' *Australian Farm Surveys Report 1999*, Australian Bureau of Agricultural and Resource Economics (ABARE), Canberra.
- Tanewski, GA, Romano, CA & Smyrnios, KX 2000, *Determinants of Australian Family Farm Growth*, RIRDC Publication No.00/131.
- Taylor, J, Norris, J & Howard, W 1998, 'Succession patterns of farmer and successor in Canadian farm families', *Rural Sociology*, vol.63, no.4, pp553-573.
- Vogel, S 2006, 'Farm succession planning in Austria', *East European Countryside*, vol.4, pp68-78.

